HIGHLIGHTS

1991
ONTARIO
BUDGET

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Highlights 1991 Ontario Budget

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1991 Ontario Budget Highlights

The 1991 Budget supports employment and economic growth at a time of recession and prepares Ontario for recovery. It sets the foundation of a new economic strategy which has sustainable prosperity as its central goal and fairness as its guiding principle.

This strategy is based on social partnerships and proposes a leadership role for Government in creating the conditions which will allow labour, business and communities to come together to find the solutions that work best for Ontario.

The Government is committed to fighting the recession, rather than this year's Budget deficit. However, as the economy recovers, its medium-term fiscal plan sets the Province on a course to bring the deficit down significantly through effective fiscal management of the public sector.

This Budget:

- provides the economic stimulus to create 70,000 jobs;
- cuts taxes for families on low incomes by $50 million on a full-year basis – the largest enrichment in the history of the Ontario Tax Reduction program;
- makes a major investment in affordable housing – close to 35,000 units will be under development this year and another 10,000 units are announced;
- more than doubles support for municipal programs for waste diversion through the environmental 3Rs – Reduce, Reuse and Recycle;
- commits $215 million on a full-year basis for reform of the social assistance system;
- commits $175 million for the Employee Wage Protection Program;
- addresses the shortage of investment capital for technology and innovation and moves ahead with important reforms to Ontario's colleges of applied arts and technology;
- provides up to $57 million in loans and loan guarantees to viable small and medium-sized manufacturing firms hard-hit by recession;

- invests $4.3 billion in capital expenditures in 1991-92 for essential public facilities such as schools, hospitals and transit systems; in addition, $300 million in capital funding for schools is committed for 1994-95;
- addresses the need for greater energy efficiency through expanded conservation and efficiency initiatives, including a two-phase increase in gasoline tax and changes in the gas guzzler tax rates on vehicles;
- commits almost $90 million for assistance to farmers;
- addresses the special needs of aboriginal peoples and the North;
- provides $125 million to assist with pay equity adjustments for women working in the broad public sector;
- increases funding by 33 per cent for programs to prevent violence against women;
- imposes selective tax increases, including raising the personal income surtax rate on earners with income over $84,000;
- calls on the Fair Tax Commission to accelerate its review of a minimum corporate tax and a land speculation tax;
- establishes a Treasury Board with responsibility to implement the Government's plan for effective fiscal management through evaluation and review of programs;
- introduces a strategy for effective management of the health care system and increases the tax on tobacco;
- promises a Budget process which involves more public participation in the future.

1991 Budget Summary

Fiscal Summary
($ Millions)

	Interim 1990-91	Budget Plan 1991-92	Per Cent Change
Operating Fund			
Revenue	43,470	43,035	(1.0)
Expenditure	43,315	48,471	11.9
Surplus (Deficit)	155	(5,436)	-
Capital Fund			
Revenue	-	-	-
Expenditure	3,200	4,290	34.1
Deficit	(3,200)	(4,290)	-
Consolidated Budget			
Revenue	43,470	43,035	(1.0)
Expenditure	46,515	52,761	13.4
Deficit	(3,045)	(9,726)	-

Economic Summary
($ Billions)

	1990	1991	Per Cent Change
Gross Domestic Product			
Nominal	281	283	0.6
Real (1986 Base)	231	223	-3.3
Employment (000s)	4,937	4,753	-3.7
Personal Income	246	253	2.8

Introduction

Ontario must have a new economic vision to help us move forward into the next century.

We took office in the midst of the most severe recession Ontario has experienced in the last 50 years. This recession is unlike economic cycles of the past. It is more serious because of the economic restructuring that is altering many traditional assumptions about the nature of growth and competition.

We believe that government can and should be active in supporting positive economic change and in ensuring that the costs of adjustment are shared fairly. In this Budget, we are putting in place the foundation of a new economic strategy – a strategy which has sustainable prosperity as its central goal, and fairness as its guiding principle.

A prosperous and sustainable economy provides secure, well-paid jobs at high levels of employment. It is an economy where the quality, not just the quantity, of economic growth is important. Economic growth must be both environmentally and socially sustainable, and all Ontarians must share fairly in prosperity.

Our economic strategy is based on social partnerships. Ontario's ability to increase productivity, adopt advanced technologies and managerial practices, enhance workers' skills and invest in emerging businesses depends on developing new working relationships.

Government has a leadership role to play in creating the conditions which will allow labour, business and communities to work out cooperative responses to economic change.

To support our economic strategy, we are committed to managing the public sector in ways that help meet our social and economic priorities through effective fiscal management.

Economic Outlook

The Ontario economy has been in recession for a year. Job losses to date have already surpassed the levels in every recession since the Second World War. A modest recovery is expected to begin later this year, with a resumption of growth in consumer spending and housing activity. However, we forecast that real output will decline by 3.3 per cent in 1991 and the unemployment rate will average 10.0 per cent.

Over the next three years, we are forecasting that real growth in Ontario will average 3.7 per cent annually. Inflation is forecast to remain below 4.0 per cent throughout this period. The unemployment rate, however, is only expected to decline to 7.8 per cent by 1994. The jobless outlook is unacceptable to this Government and we are committed to pursuing policies to fight unemployment.

Fighting the Recession

In 1991-92, Provincial expenditures are projected to be $52.8 billion, an increase of 13.4 per cent over last year. Revenues are expected to be $43.0 billion, which is actually $435 million less than last year. The deficit in our combined capital and operating accounts in this fiscal year is estimated to be $9.7 billion, up from $3.0 billion last year.

The Government is convinced that allowing the deficit to rise to this level this year is not only justifiable, it is the most responsible choice we could make, given the economic and fiscal conditions we inherited as a new government.

The recession is causing tremendous hardship for people and families in communities across the province. Ontario has been the hardest hit of any province during this downturn.

The Government of Canada has worsened the recession with its monetary policies and has unilaterally cut back on its commitments to fund such vital programs as social assistance, health and post-secondary education. As a result of measures introduced in 1990 and further extended this year, these federal transfers to Ontario in 1991-92 are projected to be $1.6 billion below previous commitments.

It is important to understand that we had a choice to make this year – to fight the deficit or fight the recession. We are proud to be fighting the recession.

This Budget provides direct employment to thousands of people through the $700 million Anti-Recession Program announced last December.

It also provides direct support to people who have lost their jobs. The Minister of Labour has introduced legislation to establish the Employee Wage Protection Program. The Government will commit $175 million in 1991-92 to pay claims retroactive to October 1, 1990. A $32.5 million labour adjustment initiative will help workers re-enter the job market and improve their skills.

This is the most aggressive effort in all of Canada to fight the recession.

This year, we are determined to alleviate some of the distressing human costs of recession and to prepare Ontario for recovery. By running a deficit in 1991-92 that is $6.7 billion higher than last year, we are providing stimulus to the economy and creating 70,000 jobs.

Towards Sustainable Prosperity

Increasing globalization of corporations, the emergence of trading blocs like the European Community, and the spread of new technologies are changing our economy and way of life.

On the plant floor and in the office, the way we work is changing, causing demand for new skills and new approaches to industrial relations. Management, labour and government must direct their efforts towards changes that will encourage productivity growth based on high-wage, high-value-added products and services.

Sustainable prosperity can only be achieved if everybody believes that they will be full participants in economic and social change and will benefit from it. People who are paid fairly, who have a sense of economic security and who feel they are respected partners in the process of change are better able to make a contribution to that process.

Governments have an important role to play in creating an environment of social and economic confidence. For example, our health care system ensures that no one is forced into bankruptcy because of an illness in the family; our social assistance system provides a safety net for people who are unable to work or find a job. We must provide that same sense of confidence and security in our economy.

Over the coming year, we will be moving on a number of fronts to secure and create well-paid jobs.

- We will explore ways to increase access to the financial capital needed for future investment in jobs. We want to channel the capital resources of Ontario to finance restructuring and promote regional development.
- We will make a major commitment to maintain and improve the infrastructure of Ontario with increased capital spending. Sound infrastructure creates a healthy climate for jobs and prosperity.
- We will pursue new approaches to education and training that will encourage workforce flexibility. Ontario's jobs depend on a constant renewal of skills and access to training.
- We will take further action to reduce economic disparities and make sure that the costs of economic adjustment are not borne by those least able to shoulder the burden.

A Skilled and Adaptable Labour Force

To move towards an economy in which workers and businesses are skilled and flexible in effecting change will require new approaches to training, industrial relations and income security.

We believe that workers will accept and support economic change if they can be sure that their statutory rights will be protected and that they will have opportunities for training that will enable them to share the benefits of new economic circumstances. The success of an active labour market strategy will depend upon the direct participation of labour, business and government in new partnerships.

Education and Training for Jobs

Education, in all its dimensions, must be at the centre of our efforts to achieve sustainable prosperity. Innovation, made possible through education, will generate greater productivity. Our standard of living depends on it.

Currently, Ontario spends almost $10 billion a year on a broad range of public education services. This Government intends to build on the strengths of the education system by pursuing a vision of lifelong learning whereby a factory or home worker, high school dropout or business executive can continue to learn throughout their lives and be recognized for their achievements.

As a first step, the Government is moving ahead with important reforms to our system of colleges of applied arts and technology. We will commit $3 million this year to begin implementation of three of the key recommendations of the recent Vision 2000 report on a renewed mandate for the college system.

Environmental Integrity

One of the fundamental premises of sustainable prosperity is environmental integrity. A clean and healthy environment is essential to the standard of living we want to preserve and enhance. We have learned the hard way that we are inhabitants of an ecologically fragile planet.

Managing Our Resources

We must all learn to live by the environmental 3Rs – Reduce, Reuse and Recycle. This year, the Government is providing an additional $28 million to municipalities to help them establish enhanced programs to meet the Provincial targets for waste diversion of at least 25 per cent by 1992 and 50 per cent by the year 2000. We are more than doubling Provincial support for municipal 3Rs programs over last year.

Energy Efficiency

Using energy wisely is critical to our future prosperity. The Government is giving priority to energy efficiency and conservation to protect the environment and to reduce the province's reliance on nuclear power. That is why we have directed Ontario Hydro to increase its conservation efforts, partly by diverting $240 million it had planned to spend on future nuclear studies. Hydro will spend more than $3.0 billion on energy conservation efforts in the 1990s.

The Ministry of Energy's activities aimed at energy efficiency will be increased by almost 75 per cent in 1991-92 through the allocation of an additional $10 million in funding.

To promote greater fuel conservation, we are increasing the rates of tax on gasoline and diesel fuel immediately by 1.7 cents per litre and by an additional 1.7 cents on January 1, 1992. These measures will raise an estimated $250 million this fiscal year. We wish to be sensitive to the recession – which is why these increases are in two stages. But the message is clear: we want to encourage the efficient use of energy.

To reinforce the environmental message, there will be changes to the gas guzzler tax rates as of July 1, 1991. The current tax rates will be doubled and a greater number of fuel inefficient vehicles, including sport utility vehicles, will now be included. An additional $30 million will be generated this fiscal year.

Supporting a More Productive Economy

Public capital expenditures contribute directly to building healthy, livable communities. Public capital projects make Ontario communities more productive and attractive to private sector investment.

The $4.3 billion for capital expenditures in 1991-92 includes transfer payments to help meet the capital needs of hospitals, school boards, universities, colleges and municipalities, as well as direct expenditures by the Government on buildings, roads, public transit, bridges and water and sewer systems.

Provincial capital spending will support 50,000 jobs in 1991-92.

As part of our emphasis on investing in sustainable prosperity, we are proceeding with the massive "Let's Move" transit program for the Greater Toronto Area, and providing funding for the Toronto Transit Commission to improve system reliability and to purchase new subway cars. Initial funding of more than $48 million is being provided for these initiatives in 1991-92.

Research and Innovation

Increasing investment in the development and application of new technologies is integral to achieving sustainable prosperity.

Ontario's Technology Fund will provide $131 million for research, development and technology diffusion in 1991-92. That includes $81 million for programs to support leading-edge research in such areas as robotics, telecommunications and biotechnology, and $50 million for the R&D Super Allowance to provide tax incentives for private sector research and development.

The annual funding for the Innovation Ontario Corporation will be increased significantly to almost $21 million.

Manufacturing Recovery

There are some small and medium-sized manufacturing firms in Ontario which are fundamentally viable, but which are having financial difficulties because of the recession and high interest rates. To assist such firms, the Government has initiated a Manufacturing Recovery Program. Viable small and medium-sized manufacturing firms applying in 1991-92 will be eligible to participate. We will provide up to $57 million in financial assistance, mainly in the form of loans and loan guarantees.

Agriculture

There are few who would question that our farming community has been suffering. The Minister of Agriculture and Food has announced two programs to assist farmers. We have committed almost $40 million in 1991-92 to the Gross Revenue Insurance Program, an income stabilization program for grain, oilseed and horticulture producers. In addition, the Farm Interest Assistance Program will provide $50 million in interest rate relief this year for interest costs incurred by farmers during 1990.

Culture

The Minister of Culture and Communications has announced $15.4 million for renewal of the Ontario Film Investment Program and other film initiatives in 1991-92. In addition, this Budget provides a further $7.5 million to the Ontario Arts Council for the support of artists and arts organizations, and an additional $5.4 million for a publishing strategy and support for community radio which will particularly benefit aboriginal peoples and francophones.

Northern Ontario

The North has the highest unemployment rate of any region in the province. In recognition of the difficult economic conditions in the North, 30 per cent of the Anti-Recession Program has been allocated to Northern Ontario.

The Government recognizes the importance of the mining industry to the future prosperity of the North. We anticipate the signing of a new $30 million five-year, federal-provincial minerals development agreement to enhance mining development and research.

A long-standing source of concern in the North is the high cost of gasoline. There is a significant differential between gasoline prices in Northern and Southern Ontario. In recognition of this differential, the motor vehicle registration fee for residents of Northern Ontario will be eliminated, effective May 1, 1991. This will save Northern motorists $15 million this year.

Residents of Northern Ontario often have to travel a considerable distance to receive medical treatment or see a specialist. The Government will provide $3.4 million over current spending to improve the Northern Health Travel Grant Program.

Greater Equity

This Government believes that all our citizens must share in the benefits of economic growth and social progress. The investment that we as taxpayers make in social equity contributes to a healthy society and a strong economy.

Social Assistance Reform

The social assistance system is a vital support to the stability and security of people and our economy. It is also an investment in Ontario's future – approximately 40 per cent of those who depend on social assistance are children.

We will commit $215 million on a full-year basis to reform of the social assistance system.

The Advisory Group on New Social Assistance Legislation said in its recent report, Back on Track, that the momentum for reform had been lost since initial changes to the system were made in 1989.

This Government is committed to putting the reform process back on track. This $215 million reform package is designed to provide benefits for those who are in greatest need, to help people get into the labour force, to increase fairness and accessibility and to assist municipalities with their funding responsibilities.

Fair Taxation

This Government is committed to greater equity in the tax system. To provide advice on how to make the system fairer, we have established the Fair Tax Commission. This is the first major review of Ontario's tax system in 25 years.

The Commission has been asked to accelerate its consultations on a corporate minimum tax for Ontario. This is a complex subject; however, it is our intention to move in this area to ensure that corporations reporting profits, but paying little or no income tax, pay their fair share.

We have also asked for early advice on an Ontario land speculation tax. Appropriate action should be taken soon, before speculation can again become a problem in a recovering housing market.

But the work of making our tax system fairer has already started. Today we are announcing the largest enrichment in the history of the Ontario Tax Reduction program. This program benefits people at the low end of the income scale. Effective for the 1991 tax year, the $200 supplements now provided for each dependent child or dependant with a disability will be raised to $350. This means that a single parent with two dependent children and who is earning $22,500 will no longer pay any Ontario personal income tax.

This $50 million tax cut brings to 700,000 the number of low-income taxpayers whose Ontario income tax will now be reduced or eliminated for the 1991 tax year.

In addition, we are proposing an increase in the personal income surtax rate. This is intended to make the tax system more progressive by ensuring that those at the upper end of the income scale pay a greater share. Effective July 1, 1991, the surtax rate will increase from 10 per cent to 14 per cent of Ontario income tax in excess of $10,000. The surtax only affects taxpayers with incomes of $84,000 or higher. This action will add $60 million to revenues in 1991-92.

Affordable Housing

Affordable housing is a key priority of this Government. Housing is the main non-discretionary expense for families on low and moderate incomes.

The Government intends to go forward with an unprecedented level of Provincially supported housing activity in this fiscal year. By refining programs, speeding up approvals and reallocating units, we will have close to 35,000 units of cooperative and non-profit housing under development. We expect people will be moving into about 13,000 of these units this year. This activity will inject some $1.3 billion into the construction industry in 1991-92, with associated employment of about 20,000 jobs.

In addition, we are announcing the provision of another 10,000 non-profit units, which will cost the Province approximately $150 million in annual operating subsidies when completed.

Preventing Violence Against Women

Violence against women is a major social problem which we must work resolutely to eliminate. In this Budget, the Government significantly expands its commitment to address the issues of wife assault and sexual assault. Funding for these two programs will increase by more than 33 per cent over last year.

We are committing an additional $12 million for new beds and enhanced services in emergency shelters and other improvements to services for women who are victims of domestic violence. Increased expenditures of more than $8 million will significantly expand and enhance services to women and children who are victims of sexual assault.

Pay Equity

It is unfair and unacceptable to undervalue certain occupations and sectors based on systemic discrimination. The Minister of Labour has announced amendments to the *Pay Equity Act* which will allow an additional 420,000 women to benefit from pay equity.

This Government will make available $100 million to assist our major transfer partners, including municipalities, school boards, hospitals and universities and colleges, with the cost of pay equity adjustments due in 1991-92. This funding is above and beyond what is normally provided for day-to-day operations. A further $25 million will be provided in 1991-92 to assist other transfer agencies in meeting their pay equity obligations.

The Government's financial commitment to pay equity is not limited to this fiscal year. We will contribute almost $1 billion annually at maturity towards pay equity adjustments in the broad public sector.

Employment Equity

Employment equity involves a comprehensive process to ensure equitable representation and to reduce systemic barriers to the recruitment, retention and promotion of under-represented groups of people. The groups designated in the Ontario Public Service program are aboriginal peoples, persons with disabilities, francophones, racial minorities and women.

This Government intends to be a model employer and to lead both the broad public sector and the private sector in achieving employment equity. We have committed $24 million in 1991-92 to employment equity initiatives in the Ontario Public Service. This is more than double previous funding levels. The Government has also appointed a Commissioner to conduct consultations on proposed employment equity legislation.

Equity for Aboriginal Peoples

The Government of Ontario is taking tangible steps towards equity for aboriginal peoples. We will commit more than $48 million in 1991-92 towards an improved quality of life that is long overdue for the aboriginal peoples of this land. Part of this funding will be used to help lay the groundwork for self-government and resolution of long-standing land claims through support for research and negotiations. Also included in this year's funding are $20 million in expenditures on community infrastructure to improve living conditions in aboriginal communities through support for water and sewer systems, housing and electrical power.

Effective Fiscal Management

Fiscal Planning

This Government is acutely aware that we are responsible for the effective fiscal management of the broad Ontario public sector. We must ensure that the people of Ontario are getting the highest quality services for their tax dollars.

This Government is convinced that the only way we will achieve effective fiscal management is through a comprehensive review and evaluation of existing programs, with the participation of the people who use services and the people who provide them. We must respond to the social and economic needs of this province by making what the public sector does and how it does it more efficient and more effective.

We have made a concerted effort in this Budget to ensure that the Government does what it can to fight the recession and to prepare the economy for recovery. As the economy recovers, however, we believe it is essential to reduce the deficit significantly.

We are putting forward a three-year fiscal plan that shows the consolidated deficit declining from $9.7 billion this year to $7.8 billion in 1994-95.

The clear fiscal targets set out in this plan are expected to reduce the deficit as a proportion of both Gross Domestic Product and total revenue. We anticipate that by 1995 the deficit will fall from 3.4 per cent to 2.2 per cent of GDP and from 22.6 per cent to 13.7 per cent of revenue.

Our fiscal plan is also intended to stabilize the important debt servicing portion of our budget. As total debt rises, our fiscal plan shows servicing costs moving from 11.6 cents per revenue dollar to a steady 12.3 cents.

Contrast this with the situation of the federal government where about 34 cents of every revenue dollar now go to service the national debt. This Government will not let Ontario slip into that kind of fiscal trap.

The deficit is not an issue that is simply of concern to the bond markets and rating agencies. It is a concern of ordinary working people in Ontario – because they do not want an ever-increasing share of their hard-earned tax dollars going to pay the interest on a huge public debt.

By 1994-95, we plan to bring the operating portion of the deficit down from $5.4 billion to $3.0 billion. Looking beyond the medium-term forecast, we plan to eliminate the operating deficit within a further three years.

This fiscal plan will not be easy to implement, but it is realistic. It will allow the Government to move forward with its priorities.

Treasury Board

The Budget control system we inherited from previous administrations simply cannot do the job in the circumstances we face. We found there was no effective mechanism for examining the structure of entire programs. We are therefore establishing a Treasury Board with clear responsibility for expenditure management.

Cooperative Approaches

The task of evaluating programs and reallocating Government spending will entail redesigning programs and taking new approaches to service delivery. We will also be asking the people who work in the public service to help us meet the targets of our fiscal plan. Working in partnership, we will find the best ways to make services more responsive to needs and to reduce costs.

We have not followed the lead of some other governments which have reduced public service jobs at a time of high unemployment and have imposed arbitrary wage limits. Instead, we intend to work cooperatively with the public service unions to meet our targets in ways that support new workplace cooperation and innovation.

It is important that we look for new ways to involve Members of the Legislature and the general public, as well as our employees, in contributing to the solutions needed to address these challenges. We are committed to major change in the Budget process in this province.

Effective Management in Health Care

One of the most crucial areas requiring effective management is our health care system. This is a priority for two major reasons: because publicly funded health care is so essential to our way of life and because the costs of our health system are threatening to overwhelm all other Government expenditures.

Health care costs currently account for approximately one-third of total Provincial spending. Health expenditures have increased by an average of more than 12 per cent per year for the past 10 years.

This Government is committed to managing health care expenditures more effectively while maintaining or improving standards of care and upholding the principles of medicare, including universality and accessibility. We believe the best way to accomplish this is in partnership with health care providers. We are therefore encouraged by the tentative agreement that has been reached through negotiations with the Ontario Medical Association (OMA).

If this landmark agreement is ratified by members of the OMA next month, we will be embarking on a new era in our health care system. It will involve a constructive and cooperative relationship between the Government and the OMA. It will introduce a management system that emphasizes quality and cost-effectiveness. This system will manage payments to physicians and will not limit patient access to health services. It will allow us to plan better for the future and to allocate resources where they are most needed.

Two others aspects of the Government's overall strategy to manage our health care system more effectively involve out-of-country health services and the Ontario Drug Benefit Plan (ODB). The Province is enacting a series of modifications to current policy to ensure that payments for out-of-country health services reflect the cost of services in Ontario. Measures to manage the ODB Plan more effectively include tighter controls on reimbursement for drugs, more comprehensive guidelines for prescribing drugs and more objective evaluations in order for a new drug to gain coverage.

These actions are part of our continuing efforts to manage our $17 billion health care system better.

Responsible Revenue Management

Tax policy has a critical role to play in effective fiscal management. Central to the role of tax policy is ensuring that tax expenditures are cost-effective.

In this Budget, we are proceeding with three measures that will tighten up the tax base and contribute to better tax expenditure management:

- capping of the three-year mining tax exemption to target the incentive more effectively;
- focusing the benefits of the small business deduction on small Canadian-controlled private corporations;
- ending the insurance premiums tax exemption for insurance companies.

Together, these tax changes will generate $70 million this fiscal year.

Responsible management also requires some changes to tax rates.

First, the capital tax on banks and loan and trust companies will increase from 0.8 per cent to 1.0 per cent, effective midnight tonight. This is still the lowest provincial rate on banks and loan and trust companies in the country.

Second, as of midnight tonight, the tax per cigarette will be increased by 1.67 cents to 6.5 cents, with an equivalent increase on cut tobacco. It has been estimated that each year tobacco-induced diseases cause 13,000 premature deaths in Ontario. It is expected that this tax increase, when combined with the federal three cent increase, will result in a decline in tobacco consumption by Ontario smokers of close to 15 per cent.

Finally, levies on all alcohol products will increase by five cents per litre effective May 27, 1991.

The total revenue impact of these tax rate changes is estimated at $280 million this fiscal year.

Conclusion

This Budget sets out our vision of the future of this province. I want to add a few words about our vision of the future of this country.

As Premier Rae has said many times, we have a long history together as Canadians, a history that binds us in many real and intangible ways. Today, every province in Canada is facing serious economic and social challenges. We are stronger if we face them together.

Our vision of sustainable prosperity for Ontario embraces a renewed and revitalized Confederation. We believe there is an important role for national leadership to secure the Canadian economic union.

We must find a new consensus for the future. Canada must be made to work in the interests of all parts of the country and all parts of society. Ontario is prepared to play a constructive and positive role in this endeavour.

We made a choice in this Budget to fight the recession, not this year's deficit, because we believe that is the priority for the people of Ontario. We will not sacrifice the essential services that Ontarians need. We are dedicated to maintaining quality health care and education. We will invest in the future and in jobs to help strengthen our province.

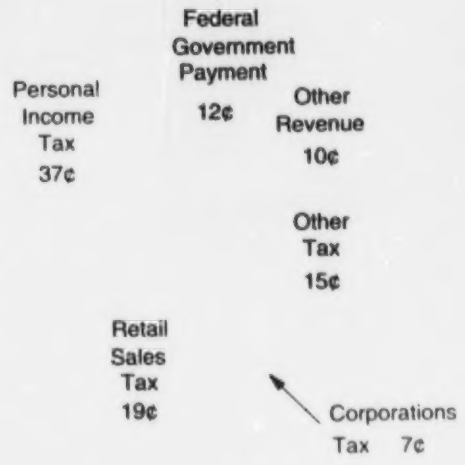
We are laying the foundation for a sound recovery and working towards a more productive, equitable and sustainable economy.

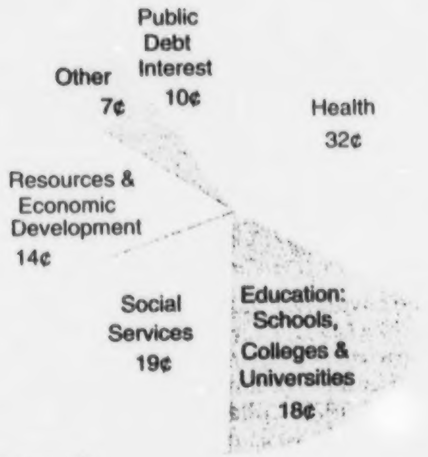
Operating Expenditure
($ Millions)

Ministry	1989-90	Interim 1990-91	Plan 1991-92
Agriculture and Food	477	555	576
Attorney General	481	561	628
Board of Internal Economy	101	165	131
Citizenship	42	47	58
Colleges and Universities	2,626	2,858	3,062
Community and Social Services	4,955	6,338	8,142
Consumer and Commercial Relations	153	173	187
Correctional Services	469	544	581
Culture and Communications	268	285	301
Disability Issues, Office for	5	6	6
Education	5,013	5,439	6,033
Energy	26	33	44
Environment	320	376	434
Executive Offices	17	19	17
Financial Institutions	40	56	60
Francophone Affairs, Office of	4	4	4
Government Services	470	467	518
Greater Toronto Area, Office for the	2	4	3
Health	13,525	15,156	16,763
Housing	407	549	764
Industry, Trade and Technology	138	192	192
Technology Fund	72	79	81
Intergovernmental Affairs	4	5	8
Labour	138	163	363
Management Board	50	62	83
Contingency Fund	-	-	195
Municipal Affairs	955	1,000	1,057
Native Affairs Secretariat	6	6	23
Natural Resources	526	583	589
Northern Development and Mines	99	113	108
Revenue	825	873	897
Seniors' Issues, Office for	6	5	6
Skills Development	239	244	265
Solicitor General	454	536	582
Tourism and Recreation	141	152	153
Transportation	728	811	849
UTDC Guarantee	-	407	-
Treasury and Economics	30	35	45
StadCo	-	322	-
Economic Development Projects	35	35	39
Public Debt Interest	4,284	4,316	4,995
Women's Issues, Office Responsible for	17	19	25
Advance Payments:			
Education	140	56	(196)
Health	334	(334)	-
Municipal Affairs	(413)	-	-
Expenditure Savings and Constraints	-	-	(200)
Total	**38,210**	**43,315**	**48,471**

Capital Expenditure
($ Millions)

Ministry	**1989-90**	**Interim 1990-91**	**Plan 1991-92**
Agriculture and Food	32	23	21
Attorney General	11	4	12
Board of Internal Economy	2	-	-
Citizenship	5	8	10
Colleges and Universities	110	115	199
Community and Social Services	106	102	122
Consumer and Commercial Relations	5	-	-
Correctional Services	4	2	8
Culture and Communications	45	38	32
Disability Issues, Office for	2	2	3
Education	310	332	419
Energy	7	13	23
Environment	179	212	266
Executive Offices	-	-	-
Financial Institutions	1	-	-
Francophone Affairs, Office of	-	-	-
Government Services	202	231	322
Greater Toronto Area, Office for the	-	-	-
Health	262	194	250
Housing	115	107	133
Industry, Trade and Technology	4	3	32
Technology Fund	-	-	-
Intergovernmental Affairs	-	-	-
Labour	-	-	-
Management Board	1	-	-
Contingency Fund	-	-	-
Municipal Affairs	19	16	36
Native Affairs Secretariat	-	-	21
Natural Resources	61	84	90
Northern Development and Mines	220	244	261
Revenue	-	-	-
Seniors' Issues, Office for	2	3	3
Skills Development	1	-	-
Solicitor General	44	37	28
Tourism and Recreation	44	52	69
Transportation	1,582	1,778	2,018
Treasury and Economics	-	-	-
Economic Development Projects	16	10	12
Women's Issues, Office Responsible for	-	-	-
Advance Payments:			
Colleges & Universities	-	(110)	-
Education	-	(300)	-
Expenditure Savings and Constraints	-	-	(100)
Total	**3,392**	**3,200**	**4,290**





* Excludes advance payments.

General enquiries about the
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Toronto, Ontario
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Toll free long distance
1-800-263-7965

The cover, A.Y. Jackson, detail of *Pine Island*, from "Canadian Drawings - a portfolio of prints by members of the Group of Seven", 1925. Collection: Art Gallery of Ontario

1991
ONTARIO BUDGET

FLOYD LAUGHREN
TREASURER
OF ONTARIO

1991
ONTARIO
BUDGET

PRESENTED TO THE
MEMBERS OF THE LEGISLATIVE
ASSEMBLY OF ONTARIO BY
FLOYD LAUGHREN
TREASURER OF ONTARIO AND
MINISTER OF ECONOMICS
APRIL 29, 1991

General enquiries regarding policy in the *1991 Ontario Budget* should be directed to:

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1991 Ontario Budget

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1991 Budget Summary

Fiscal Summary
($ Millions)

	Interim 1990-91	Budget Plan 1991-92	Per Cent Change
Operating Fund			
Revenue	43,470	43,035	(1.0)
Expenditure	43,315	48,471	11.9
Surplus (Deficit)	155	(5,436)	-
Capital Fund			
Revenue	-	-	-
Expenditure	3,200	4,290	34.1
Deficit	(3,200)	(4,290)	-
Consolidated Budget			
Revenue	43,470	43,035	(1.0)
Expenditure	46,515	52,761	13.4
Deficit	(3,045)	(9,726)	-

Economic Summary
($ Billions)

	1990	1991	Per Cent Change
Gross Domestic Product			
Nominal	281	283	0.6
Real (1986 Base)	231	223	-3.3
Employment (000s)	4,937	4,753	-3.7
Personal Income	246	253	2.8

Address to the Legislature

Introduction

Mr. Speaker, I am pleased to present the 1991 Budget of the first social democratic government in Ontario.

I am conscious of the tremendous responsibility I have to the public and the great trust that has been placed in me by Premier Rae and this Government.

This Budget has not been an easy one to prepare. We took office in the midst of a recession that is proving to be the most severe Ontario has experienced in the last 50 years. This recession is unlike economic cycles of the past. It is more serious because of the economic restructuring that is altering many traditional assumptions about the nature of growth and competition.

In the last few months, I have listened to individuals and organizations from across the province. The message has been driven home for me that the world is changing, and Ontario is having to change with it. Ontario must have a new economic vision to help us move forward into the next century.

We believe that government can and should be active in supporting positive economic change and in ensuring that the costs of adjustment are shared fairly. In this Budget, we are putting in place the foundation of a new economic strategy – a strategy which has sustainable prosperity as its central goal, and fairness as its guiding principle.

A prosperous and sustainable economy provides secure, well-paid jobs at high levels of employment. It is an economy where the quality, not just the quantity, of economic growth is important. Economic growth must be both environmentally and socially sustainable, and all Ontarians must share fairly in prosperity.

Our economic strategy is based on social partnerships. Ontario's ability to increase productivity, adopt advanced technologies and managerial practices, enhance workers' skills and invest in emerging businesses depends on developing new working relationships.

Government has a leadership role to play in creating the conditions which will allow labour, business and communities to work out cooperative responses to economic change.

To support our economic strategy, we are committed to managing the public sector in ways that help meet our social and economic priorities through effective fiscal management.

Economic Outlook

Mr. Speaker, the Ontario economy has been in recession for a year. Job losses to date have already surpassed the levels in every recession since the Second World War. Since last spring, employment in Ontario has declined by about a quarter of a million jobs.

This recession has reflected serious structural changes as well as cyclical forces. In 1990, 65 per cent of major layoffs were due to permanent closures, compared to only 24 per cent in the recession of 1982. Business bankruptcies were up 73 per cent in 1990, compared to 24 per cent in 1982.

A modest recovery is expected to begin later this year, with a resumption of growth in consumer spending and housing activity. However, we forecast that real output will decline by 3.3 per cent in 1991 and the unemployment rate will average 10.0 per cent. Interest rates have started to fall recently, but the decline has been too little, too late. The continuation of a relatively restrictive federal interest rate policy and a high dollar will slow the pace of recovery.

Over the next three years, we are forecasting that real growth in Ontario will average 3.7 per cent annually. Inflation is forecast to remain below 4.0 per cent throughout this period. The unemployment rate, however, is only expected to decline to 7.8 per cent by 1994. The jobless outlook is unacceptable to this Government and we are committed to pursuing policies to fight unemployment.

Ontario Economic Performance and Outlook Table 1

(Per Cent)

	Real GDP Growth	Job Creation (000s)	Unemployment Rate	CPI Inflation
1990	0.5	-12	6.3	4.8
1991	-3.3	-184	10.0	5.6
1992	3.4	84	9.7	3.7
1993	4.0	120	8.6	3.8
1994	3.6	116	7.8	3.7

Further details on the economic outlook are provided in Budget Paper B.

Fighting the Recession

Mr. Speaker, in 1991-92, Provincial expenditures are projected to be $52.8 billion, an increase of 13.4 per cent over last year. Revenues are expected to be $43.0 billion, which is actually $435 million less than last year. The deficit in our combined capital and operating accounts in this fiscal year is estimated to be $9.7 billion, up from $3.0 billion last year.

The Government is convinced that allowing the deficit to rise to this level this year is not only justifiable, it is the most responsible choice we could make, given the economic and fiscal conditions we inherited as a new government.

The recession is causing tremendous hardship for people and families in communities across the province. Ontario has been the hardest hit of any province during this downturn.

We have not received help from our national government. On the contrary, the Government of Canada has worsened the recession with its monetary policies and has unilaterally cut back on its commitments to fund such vital programs as social assistance, health and post-secondary education. As a result of measures introduced in 1990 and further extended this year, these federal transfers to Ontario in 1991-92 are projected to be $1.6 billion below previous commitments.

The federal government has not only abandoned previous funding commitments, it has abdicated its responsibility to promote economic growth during hard times. This Government has not done that.

Mr. Speaker, I think it is important for people to understand that we had a choice to make this year – to fight the deficit or fight the recession. We are proud to be fighting the recession.

This Budget picks up the slack in federal funding for social, health and educational programs. Social assistance costs alone are expected to increase by 40 per cent to $4.9 billion in this fiscal year.

To reduce the deficit, we could have increased personal income taxes for ordinary working people or raised corporate income taxes across the board. We have not done that because we believe such moves would worsen the recession. And by not imposing the provincial sales tax on the Goods and Services Tax (GST), we are leaving $470 million in the pockets of consumers in 1991.

This Budget provides direct employment to thousands of people through the $700 million Anti-Recession Program announced last December. It also provides direct support to people who have lost their jobs. My colleague, the Minister of Labour, has introduced legislation to establish the Employee Wage Protection Program. The Government will commit $175 million in 1991-92 to pay claims retroactive to October 1, 1990. The Minister has also announced a $32.5 million labour adjustment initiative to help workers re-enter the job market and improve their skills.

This is the most aggressive effort in all of Canada to fight the recession .

We are responding to the need for action in areas such as worker protection, pay equity, social assistance reform, affordable housing and the environment. At the same time, we have made some difficult decisions on program reallocations this year to ensure that these initiatives – which are essential for building equitable and sustainable prosperity – are funded.

We have increased Provincial capital spending to $4.3 billion to support employment and to provide necessary investment in schools, roads and other public facilities that will be enduring assets in Ontario communities.

Mr. Speaker, we believe government has a responsibility to support employment and economic growth in times of recession. As the economy begins to recover, we are committed to balancing the operating account, and this Budget presents a fiscal plan to set us on that course.

This year, we are determined to alleviate some of the distressing human costs of recession and to prepare Ontario for recovery. By running a deficit in 1991-92 that is $6.7 billion higher than last year, we are providing stimulus to the economy and creating 70,000 jobs.

Towards Sustainable Prosperity

Increasing globalization of corporations, the emergence of trading blocs like the European Community, and the spread of new technologies are changing our economy and way of life.

On the plant floor and in the office, the way we work is changing, causing demand for new skills and new approaches to industrial relations. Our workforce and our businesses will need to be flexible and adaptable in the years ahead. Management, labour and government must direct their efforts towards changes that will encourage productivity growth based on high-wage, high-value-added products and services.

Sustainable prosperity depends upon having a fair social and economic system. A dynamic economy requires workers, managers and investors who have the confidence and ability to promote needed changes.

Sustainable prosperity can only be achieved if everybody believes that they will be full participants in economic and social change and will benefit from it. People who are paid fairly, who have a sense of economic security and who feel they are respected partners in the process of change are better able to make a contribution to that process.

Governments have an important role to play in creating an environment of social and economic confidence. For example, our health care system ensures that no one is forced into bankruptcy because of an illness in the family; our social assistance system provides a safety net for people who are unable to work or find a job. We must provide that same sense of confidence and security in our economy.

Ontario has a sound and diversified economic base, with a highly educated, motivated workforce and a well-developed infrastructure. In 1989, the latest year for which data are available, the province had a higher absolute level of output per capita than any of the major industrialized nations. But we cannot be complacent.

I am keenly aware of the competitive challenges facing firms and workers in today's changing economic circumstances. The Canada-U.S. Free

Trade Agreement accentuates the pressures for change and imposes limits on our ability to pursue national economic strategies. With this Budget, I am tabling a discussion paper on Ontario's economy in the 1990s which explores the issues of productivity and competitiveness.

Over the coming year, we will be moving on a number of fronts to secure and create well-paid jobs.

- We will explore ways to increase access to the financial capital needed for future investment in jobs. We want to channel the capital resources of Ontario to finance restructuring and promote regional development.
- We will make a major commitment to maintain and improve the infrastructure of Ontario with increased capital spending. Sound infrastructure creates a healthy climate for jobs and prosperity.
- We will pursue new approaches to education and training that will encourage workforce flexibility. Ontario's jobs depend on a constant renewal of skills and access to training.
- We will take further action to reduce economic disparities and make sure that the costs of economic adjustment are not borne by those least able to shoulder the burden.

Mr. Speaker, I do not have instant answers for all our economic challenges. In a period of rapid change, prefabricated solutions based on old assumptions usually end up responding to yesterday's problems, not tomorrow's opportunities.

We know what our society can achieve when all of us work together. Government alone cannot create sustainable prosperity, but it can start providing the framework and stimulate the strategic investment, both public and private, that will be needed to achieve it. We will work to create the conditions where labour, business and members of the community will come together to find the solutions that work best for Ontario.

A Skilled and Adaptable Labour Force

To move towards an economy in which workers and businesses are skilled and flexible in effecting change will require new approaches to training, industrial relations and income security. We believe that workers will accept and support economic change if they can be sure that their statutory rights will be protected and that they will have opportunities for training that will enable them to share the benefits of new economic circumstances. The success of an active labour market strategy will depend upon the direct participation of labour, business and government in new partnerships.

As part of our labour reform agenda, the Government is committed to reviewing, in cooperation with labour, business and other governments, a range of workplace issues. These include future increases to the minimum wage, pension reform, amendments to the *Pay Equity Act* and the *Ontario Labour Relations Act* and reform of the *Employment Standards Act*, including improved notice of layoffs and severance pay provisions.

Education and Training for Jobs

Education, in all its dimensions, must be at the centre of our efforts to achieve sustainable prosperity. From the shop floor to the boardroom, learning is the key to success in finding new technological and organizational solutions. Innovation, made possible through education, will generate greater productivity. Our standard of living depends on it.

Currently, Ontario spends almost $10 billion a year on a broad range of public education services. This Government intends to build on the strengths of the education system by pursuing a vision of lifelong learning whereby a factory or home worker, high school dropout or business executive can continue to learn throughout their lives and be recognized for their achievements. It is time to break down unnecessary barriers between different educational institutions and between our educators and the workplace. By building partnerships, in the context of long-term planning, we can begin to make this happen.

As a first step, the Government is moving ahead with important reforms to our system of colleges of applied arts and technology. We will commit $3 million this year to begin implementation of three of the key recommendations of the recent Vision 2000 report on a renewed mandate for the college system.

First, a College Standards and Accreditation Council will be formed to ensure that college programs are of a consistently high quality across the province. Second, we will be moving forward on a system for fairly evaluating prior learning and experience as credit towards a post-secondary credential. Third, the Minister of Colleges and Universities will be undertaking a feasibility study to examine innovative ways for colleges and universities to cooperate in offering new credentials for advanced training. The Minister will be announcing further details.

In addition, we are negotiating a new agreement on training with the federal government. Under the previous agreement, Ontario – with nearly 40 per cent of Canada's labour force – received only about 24 per cent of federal training dollars. This is not acceptable. The federal government must recognize the challenges facing Ontario workers as a result of the dislocation caused by high interest rates, an over-valued dollar, the Free Trade Agreement and the absence of a national industrial strategy. A significant new federal investment in training is essential.

Environmental Integrity

Mr. Speaker, one of the fundamental premises of sustainable prosperity is environmental integrity. A clean and healthy environment is essential to the standard of living we want to preserve and enhance. We have learned the hard way that we are inhabitants of an ecologically fragile planet. We have learned that economic growth is ultimately unsustainable if it neglects the environment and the wise management of our resources.

Managing Our Resources

We must all learn to live by the environmental 3Rs – Reduce, Reuse and Recycle. This year, the Government is providing an additional $28 million to municipalities to help them establish enhanced programs to meet the Provincial targets for waste diversion of at least 25 per cent by 1992 and 50 per cent by the year 2000. We are more than doubling Provincial support for municipal 3Rs programs over last year.

The Government is also establishing a three-year, $10 million program to assess abandoned mine hazards and to undertake remedial work on known high-risk sites. Regulations soon to be established under the *Mining Act* will give the Province authority to enforce stricter protection and rehabilitation standards for current and future mines.

Energy Efficiency

Using energy wisely is critical to our future prosperity. The Government is giving priority to energy efficiency and conservation to protect the environment and to reduce the province's reliance on nuclear power. That is why we have directed Ontario Hydro to increase its conservation efforts, partly by diverting $240 million it had planned to spend on future nuclear studies. Hydro's spending on demand management and conservation programs will increase from $102 million in 1990 to $232 million in 1991 and to an estimated $320 million in 1992. Hydro will spend more than $3.0 billion on energy conservation efforts in the 1990s.

The Ministry of Energy will also be launching a series of new and expanded energy efficiency initiatives that will address many forms of energy use. The Ministry's activities in this area will be increased by almost 75 per cent in 1991-92 through the allocation of an additional $10 million in funding.

To promote greater fuel conservation, we are increasing the rates of tax on gasoline and diesel fuel immediately by 1.7 cents per litre and by an additional 1.7 cents on January 1, 1992. These measures will raise an estimated $250 million this fiscal year. We wish to be sensitive to the recession – which is why these increases are in two stages. But the message is clear: we want to encourage the efficient use of energy.

To reinforce the environmental message, I am announcing changes to the gas guzzler tax rates as of July 1, 1991. The current tax rates will be doubled and a greater number of fuel inefficient vehicles, including sport utility vehicles, will now be included. These changes to the gas guzzler tax strengthen the message that fuel efficiency and environmental impact should be important considerations when purchasing a new vehicle. An additional $30 million will be generated this fiscal year.

Supporting a More Productive Economy

Mr. Speaker, public capital expenditures contribute directly to building healthy, livable communities. Public capital projects make Ontario communities more productive and attractive to private sector investment.

The $4.3 billion for capital expenditures in 1991-92 includes transfer payments to help meet the capital needs of hospitals, school boards, universities, colleges and municipalities, as well as direct expenditures by the Government on buildings, roads, public transit, bridges and water and sewer systems.

Provincial capital spending will play an important role in providing the infrastructure needed for both cyclical recovery and long-term structural change and will support 50,000 jobs in 1991-92.

As part of our emphasis on investing in sustainable prosperity, we are proceeding with the massive "Let's Move" transit program for the Greater Toronto Area, and providing funding for the Toronto Transit Commission to improve system reliability and to purchase new subway cars.

Initial funding of more than $48 million is being provided for these initiatives in 1991-92. About $11 million of this funding will be used for environmental assessments to ensure that our transit strategy proceeds on an environmentally sound basis. The "Let's Move" program will involve public and private sector funding of more than $5 billion over 10 to 15 years.

Research and Innovation

Increasing investment in the development and application of new technologies is integral to achieving sustainable prosperity. Product and process innovations are key elements of success in both domestic and international markets, and thus in securing high-value-added, high-wage employment.

Ontario's traditional emphasis has been on tax-based incentives for research and development. Currently, the combined federal-provincial incentives available to companies which operate in Ontario are more generous than those of other major industrial countries.

Even with favourable tax treatment, research and development in Ontario is well below the levels found in most other industrial economies. We must initiate a broader range of policies, from joint venture and sector-specific cooperation to research incentives and new forms of worker involvement. Technological change depends on introducing the partnerships which support a culture of innovation. It requires the hands-on participation of all economic players.

Ontario's Technology Fund will provide $131 million for research, development and technology diffusion in 1991-92. That includes $81 million for programs to support leading-edge research in such areas as robotics, telecommunications and biotechnology, and $50 million for the R&D Super Allowance to provide tax incentives for private sector research and development.

As suggested by the Standing Committee on Finance and Economic Affairs, we will be addressing the critical shortage of investment capital for new high-technology firms. The annual funding for the Innovation Ontario Corporation will be increased significantly to almost $21 million. The ceiling for individual investments by Innovation Ontario will be raised to $1 million from $350,000, enabling the Corporation to invest in the continuing growth of high-technology firms.

Manufacturing Recovery

There are some small and medium-sized manufacturing firms in Ontario which are fundamentally viable, but which are having financial difficulties because of the recession and high interest rates. These are firms which provide quality jobs with solid future prospects. They have long-run strategic value to our economy.

To assist such firms, the Government has initiated a Manufacturing Recovery Program. Viable small and medium-sized manufacturing firms applying in 1991-92 will be eligible to participate. We will provide up to $57 million in financial assistance, mainly in the form of loans and loan guarantees. My colleague, the Minister of Industry, Trade and Technology, will be announcing details in the coming weeks.

Agriculture

Mr. Speaker, there are few who would question that our farming community has been suffering. The hardships imposed by the recession are compounding the difficulties that were already being experienced as a result of structural adjustment, unstable commodity prices and high interest rates.

The future viability of our agricultural community is vital to the sustainable prosperity of Ontario. Farming is one of our core industries which must be maintained. It is also the mainstay of much of rural Ontario. When farmers are hurting financially, towns and villages across the province feel the burden too.

The Minister of Agriculture and Food has announced two programs to assist farmers. We have committed almost $40 million in 1991-92 to the Gross Revenue Insurance Program, an income stabilization program for grain, oilseed and horticulture producers. In addition, the Farm Interest Assistance Program will provide $50 million in interest rate relief this year for interest costs incurred by farmers during 1990.

Culture

Many people overlook the economic impact of our cultural industry. Culture is appreciated for its artistic value and for its capacity to help us understand ourselves. We should also recognize that it is an important and growing industry, employing more than 75,000 people in Ontario.

My colleague, the Minister of Culture and Communications, has announced $15.4 million for renewal of the Ontario Film Investment Program and other film initiatives in 1991-92. In addition, this Budget provides a further $7.5 million to the Ontario Arts Council for the support of artists and arts organizations, and an additional $5.4 million for a publishing strategy and support for community radio which will particularly benefit aboriginal peoples and francophones. The Minister will be providing further details.

Northern Ontario

Many Northern communities, particularly single-industry towns, are under extreme pressure from long-term structural challenges. The North has the highest unemployment rate of any region in the province. In recognition of the difficult economic conditions in the North, 30 per cent of the Anti-Recession Program has been allocated to Northern Ontario. We have also responded to the special needs of Northern communities by supporting local diversification initiatives, relocating Provincial jobs and giving priority consideration under existing Provincial programs to local projects.

The Government recognizes the importance of the mining industry to the future prosperity of the North. We anticipate the signing of a new $30 million five-year, federal-provincial minerals development agreement to enhance mining development and research.

Mr. Speaker, a long-standing source of concern in the North is the high cost of gasoline. There is a significant differential between gasoline prices in Northern and Southern Ontario. Delivery costs are higher to the North, and the Northern market is not as competitive, due in part to lower population densities and fewer gasoline stations. In recognition of this differential, the motor vehicle registration fee for residents of Northern Ontario will be eliminated, effective May 1, 1991. This will save Northern motorists $15 million this year.

Residents of Northern Ontario often have to travel considerable distance to receive medical treatment or see a specialist. The Ontario Government will provide $3.4 million over current spending to improve the Northern Health Travel Grant Program. The Government is reducing the minimum distance to 100 kilometres from 250 kilometres for travel within Northern Ontario or to Manitoba. In addition, the Travel Grant Program will now include the District of Parry Sound and all of the District of Nipissing.

Greater Equity

Mr. Speaker, this Government believes that all our citizens must share in the benefits of economic growth and social progress. The investment that we as taxpayers make in social equity contributes to a healthy society and a strong economy. In this Budget, we are starting to reduce social deficits caused by inequity, poverty and lack of access in our society. There is a real connection between our social infrastructure and our economy. Our social programs help give people the confidence to meet the challenge of economic change and participate fully in our economy.

Social Assistance Reform

The social assistance system is an essential part of this Province's social safety net. Tens of thousands of people who have lost their jobs in the past year are relying on social assistance for the basics of life: food and shelter. This system is a vital support to the stability and security of our economy. It is also an investment in Ontario's future – approximately 40 per cent of those who depend on social assistance are children.

We will commit $215 million on a full-year basis to reform of the social assistance system.

Reform of the system has been a major issue since the Transitions report of the Social Assistance Review Committee was released in 1988. The Advisory Group on New Social Assistance Legislation, an independent working group reporting to the Minister of Community and Social Services, said in its recent report, Back on Track, that the momentum for reform had been lost since initial changes to the system were made in 1989.

This Government is committed to putting the reform process back on track. This $215 million reform package, which will be described in more detail by the Minister, is designed to provide benefits for those who are in greatest need, to help people get into the labour force, to increase fairness and accessibility and to assist municipalities with their funding responsibilities.

This is a major commitment, particularly in a year in which social assistance costs are expected to reach $4.9 billion, up from $2.5 billion two years ago.

Fair Taxation

This Government is committed to greater equity in the tax system. To provide advice on how to make the system fairer, we have established the Fair Tax Commission. This is the first major review of Ontario's tax system in 25 years. As Members are aware, the Commission will be examining a number of specific tax issues that are high on the Government's agenda. Two issues in particular require immediate attention.

I have asked the Commission to accelerate its consultations on a corporate minimum tax for Ontario. I realize that this is a complex subject; however, it is my intention to move in this area to ensure that corporations reporting profits, but paying little or no income tax, pay their fair share.

I have also asked for early advice on an Ontario land speculation tax. I believe that appropriate action should be taken soon, before speculation can again become a problem in a recovering housing market.

But the work of making our tax system fairer has already started. Today I am announcing the largest enrichment in the history of the Ontario Tax Reduction program. This program benefits people at the low end of the income scale. Effective for the 1991 tax year, the $200 supplements now provided for each dependent child or dependant with a disability will be raised to $350. This means that a single parent with two dependent children and who is earning $22,500 will no longer pay any Ontario personal income tax.

This $50 million tax cut brings to 700,000 the number of low-income taxpayers whose Ontario income tax will now be reduced or eliminated for the 1991 tax year.

In addition, I am proposing an increase in the personal income surtax rate. This is intended to make the tax system more progressive by ensuring that those at the upper end of the income scale pay a greater share. Effective July 1, 1991, the surtax rate will increase from 10 per cent to 14 per cent of Ontario income tax in excess of $10,000. The surtax only affects taxpayers with incomes of $84,000 or higher. This action will add $60 million to revenues in 1991-92.

Affordable Housing

Affordable housing is a key priority of this Government. Housing is the main non-discretionary expense for families on low and moderate incomes. We are committed to increasing the supply of affordable housing to respond to the need and to contribute to the vitality of our communities.

The Government intends to go forward with an unprecedented level of Provincially supported housing activity in this fiscal year. By refining programs, speeding up approvals and reallocating units, we will have close to 35,000 units of cooperative and non-profit housing under development. We expect people will be moving into about 13,000 of these units this year. This activity will inject some $1.3 billion into the construction industry in 1991-92, with associated employment of about 20,000 jobs.

In addition, we are announcing the provision of another 10,000 non-profit units, which will cost the Province approximately $150 million in annual operating subsidies when completed. My colleague, the Minister of Housing, will be announcing further details.

For 1991-92, the Ministry of Housing will be allocated more than $764 million to meet its operating expenditures, representing an increase of more than 39 per cent in its funding.

Preventing Violence Against Women

Mr. Speaker, for many women, home is not a safe haven. We are committing an additional $12 million for new beds and enhanced services in emergency shelters and other improvements to services for women who are victims of domestic violence.

Violence against women is a major social problem which we must work resolutely to eliminate. In this Budget, the Government significantly expands its commitment to address the issues of wife assault and sexual assault. Funding for these two programs will increase by more than 33 per cent over last year.

Additional funds to eliminate wife assault will focus not only on emergency shelters for women and their children, but on counselling and prevention programs, services for racial minorities and women with disabilities and on development of local responses to aboriginal family violence.

Increased expenditures of more than $8 million will significantly expand and enhance services to women and children who are victims of sexual assault. This new funding will extend services for rural, francophone, disabled, immigrant and racial minority women.

Pay Equity

Mr. Speaker, we cannot have an economy which flourishes at the expense of certain parts of the workforce. It is unfair and unacceptable to undervalue certain occupations and sectors based on systemic discrimination. The Minister of Labour has announced amendments to the *Pay Equity Act* which will allow an additional 420,000 women to benefit from pay equity.

This Government will make available $100 million to assist our major transfer partners, including municipalities, school boards, hospitals and universities and colleges, with the cost of pay equity adjustments due in 1991-92. This funding is above and beyond what is normally provided for day-to-day operations. A further $25 million will be provided in 1991-92 to assist other transfer agencies in meeting their pay equity obligations. In addition to the $125 million, the Minister of Community and Social Services previously announced an initial step towards pay equity for child care workers by providing $30 million to improve salaries.

The Government's financial commitment to pay equity is not limited to this fiscal year. We will contribute almost $1 billion annually at maturity towards pay equity adjustments in the broad public sector.

Employment Equity

Employment equity involves a comprehensive process to ensure equitable representation and to reduce systemic barriers to the recruitment, retention and promotion of under-represented groups of people. The groups designated in the Ontario Public Service program are aboriginal peoples, persons with disabilities, francophones, racial minorities and women. These groups represent 60 per cent of Ontario's population and more than half the labour force. We must make the most of the potential of all of our citizens to help us meet social and economic challenges.

This Government intends to be a model employer and to lead both the broad public sector and the private sector in achieving employment equity. We have committed $24 million in 1991-92 to employment equity initiatives in the Ontario Public Service. This is more than double previous funding levels. The Government has also appointed a Commissioner to conduct consultations on proposed employment equity legislation.

Equity for Aboriginal Peoples

The Government of Ontario is taking tangible steps towards equity for aboriginal peoples. We will commit more than $48 million in 1991-92 towards an improved quality of life that is long overdue for the aboriginal peoples of this land. Part of this funding will be used to help lay the groundwork for self-government and resolution of long-standing land claims through support for research and negotiations.

Also included in this year's funding are $20 million in expenditures on community infrastructure to improve living conditions in aboriginal communities through support for water and sewer systems, housing and electrical power. Social service improvements for First Nations communities will include $5 million in capital funding this year to create 400 new spaces for child care on reserves. Other funding for aboriginal peoples will be used for economic development programs and education initiatives at all levels.

First Nations will also benefit from funds allocated for social assistance reform which will respond to the proposals put forward by these communities.

Effective Fiscal Management

Fiscal Planning

Mr. Speaker, this Government is acutely aware that we are responsible for the effective fiscal management of the broad Ontario public sector. We must ensure that the people of Ontario are getting the highest quality services for their tax dollars.

This Government is convinced that the only way we will achieve effective fiscal management is through a comprehensive review and evaluation of existing programs, with the participation of the people who use services and the people who provide them. We must respond to the social and economic needs of this province by making what the public sector does and how it does it more efficient and more effective.

I indicated at the outset of this statement that we have made a concerted effort in this Budget to ensure that the Government does what it can to fight the recession and to prepare the economy for recovery.

As the economy recovers, however, I believe it is essential to reduce the deficit significantly. Today I am putting forward a three-year fiscal plan that shows the consolidated deficit declining from $9.7 billion this year to $7.8 billion in 1994-95.

Medium-Term Fiscal Outlook **Table 2**

($ Billions)

	1991-92	1992-93	1993-94	1994-95
Revenue	43.0	47.2	51.9	57.0
Expenditures	52.8	56.1	60.3	64.8
Consolidated Deficit	(9.7)	(8.9)	(8.4)	(7.8)
Operating Deficit	(5.4)	(4.5)	(3.8)	(3.0)

Note: Numbers may not add due to rounding.

The clear fiscal targets set out in this plan are expected to reduce the deficit as a proportion of both Gross Domestic Product and total revenue. We anticipate that by 1995 the deficit will fall from 3.4 per cent to 2.2 per cent of GDP and from 22.6 per cent to 13.7 per cent of revenue.

Our fiscal plan is also intended to stabilize the important debt servicing portion of our budget. As total debt rises, our fiscal plan shows servicing costs moving from 11.6 cents per revenue dollar to a steady 12.3 cents.

Contrast this with the situation of the federal government where about 34 cents of every revenue dollar now go to service the national debt. This Government will not let Ontario slip into that kind of fiscal trap.

Mr. Speaker, the deficit is not an issue that is simply of concern to the bond markets and rating agencies. It is a concern of ordinary working people in Ontario – because they do not want an ever-increasing share of their hard-earned tax dollars going to pay the interest on a huge public debt.

By 1994-95, we plan to bring the operating portion of the deficit down from $5.4 billion to $3.0 billion. Looking beyond the medium-term forecast, we plan to eliminate the operating deficit within a further three years. After the last recession, it took from 1982 to 1987 to balance the operating budget during a period of strong and rapid growth. Although the outlook for economic growth is more modest in the years ahead, we still expect to meet our objective of balancing the operating budget by 1997.

The task ahead would be much simpler if the federal government had not begun a deliberate campaign in the 1980s to dismantle its commitments to social programs. These cumulative federal reductions in Established Programs Financing and payments under the Canada Assistance Plan will cost Ontario some $3.6 billion in 1991-92 alone – enough to wipe out almost two-thirds of our operating deficit. What's more, the federal government has announced its intention to continue to restrict its contribution to essential social programs for a further three years – with serious consequences for the well-being of our nation.

This fiscal plan will not be easy to implement, but it is realistic. I want to emphasize that it will allow the Government to move forward with its priorities.

The Budget control system we inherited from previous administrations simply cannot do the job in the circumstances we face. We found there was no effective mechanism for examining the structure of entire programs. We are therefore establishing a Treasury Board, which I will chair, with clear responsibility for expenditure management.

Critical to its functioning will be the development of Budget planning that looks beyond a single year and the introduction of an expenditure review and evaluation process that integrates the policy priorities of the Government into allocation decisions.

The task of evaluating programs and reallocating Government spending will entail redesigning programs and taking new approaches to service delivery. For example, my colleague, the Minister of Education has been reviewing the planning for educational facilities as part of a change in direction towards community-based, multi-use schools. The $300 million in school capital funding that I am announcing today for 1994-1995 will incorporate this new approach.

We will also be asking the people who work in the public service to help us meet the targets of our fiscal plan. Working in partnership, we will find the best ways to make services more responsive to needs and to reduce costs.

We have not followed the lead of some other governments which have reduced public service jobs at a time of high unemployment and have imposed arbitrary wage limits. Instead, we intend to work cooperatively with the public service unions to meet our targets in ways that support new workplace cooperation and innovation.

It is important that we look for new ways to involve Members of the Legislature and the general public, as well as our employees, in contributing to the solutions needed to address these challenges. The Province funds a range of services, like health care, education and many social services, which are basic to our way of life. It is important that the public – which uses these services and pays for them through their taxes – participate in the process of identifying where we can improve effectiveness.

We are committed to major change in the Budget process in this province. Bringing the process into the 1990s is a major challenge and, given its scale, I fully expect changes to continue throughout the mandate of this Government. As a first step, I intend to ask for the views of the Standing Committee on Finance and Economic Affairs on ways to open up the Budget process to involve more public participation.

Effective Management in Health Care

Mr. Speaker, one of the most crucial areas requiring effective management is our health care system. This is a priority for two major reasons: because publicly funded health care is so essential to our way of life and because the costs of our health system are threatening to overwhelm all other Government expenditures.

We must maintain the quality of health services while reducing the rate of expenditure growth in the system. Health care costs currently account for approximately one-third of total Provincial spending. Health expenditures have increased by an average of more than 12 per cent per year for the past 10 years.

This Government is committed to managing health care expenditures more effectively while maintaining or improving standards of care and upholding the principles of medicare, including universality and accessibility. We believe the best way to accomplish this is in partnership with health care providers. We are therefore encouraged by the tentative agreement that has been reached through negotiations with the Ontario Medical Association (OMA).

If this landmark agreement is ratified by members of the OMA next month, we will be embarking on a new era in our health care system. It will involve a constructive and cooperative relationship between the Government and the Ontario Medical Association. It will introduce a management system that emphasizes quality and cost-effectiveness. This system will manage payments to physicians and will not limit patient access to health services. It will allow us to plan better for the future and to allocate resources where they are most needed.

Mr. Speaker, I cannot prejudge the results of the upcoming ratification vote. I can only say that the Government hopes to join with physicians in managing our quality health care system in the interests of all the people of Ontario.

The Minister of Health will be providing further information to Members of this House once the ratification vote has been held.

Today, I can inform the House of two aspects of the Government's overall strategy to manage our health care system more effectively. These are not part of the tentative agreement. They affect out-of-country health services and the Ontario Drug Benefit Plan.

Ontario Health Insurance Premium (OHIP) payments for out-of-country health services, primarily in the United States, have increased dramatically from $100 million in 1988-89 to $225 million in 1990-91, a 125 per cent increase in only three years. The Province is enacting a series of modifications to the current OHIP policy to ensure that payments for out-of-country health services reflect the cost of services in Ontario. We will also establish service registries and information systems to identify available services within the province so that fewer people have to use outside services.

Measures to manage the Ontario Drug Benefit Plan more effectively are being pursued as well. Expenditures in this area have increased by an average of 19 per cent per year over the past 10 years. The Government intends to implement tighter controls on reimbursement for drugs, establish more comprehensive guidelines for prescribing drugs, and require more objective evaluations in order for a new drug to gain coverage.

The Minister of Health will be announcing details of these measures soon. These actions are part of our continuing efforts to manage our $17 billion health care system better.

Capital Budgeting

Capital expenditures represent another important area where improved public sector fiscal management is needed. Governments often reduce capital spending as a short-term restraint measure. Such cuts are at the expense of our capacity to respond to, and lead, social and economic change.

In order to recognize the importance of capital and to focus on the strategic planning of capital expenditures, Ontario is establishing a Capital Fund and an Operating Fund. Starting in the 1991-92 fiscal year, there will be separate budgets for capital and operating expenditures. We will continue to show the consolidated deficit or surplus position of the Province.

Further details are found in Budget Paper D.

Responsible Revenue Management

Tax policy has a critical role to play in effective fiscal management. Central to the role of tax policy is ensuring that tax expenditures are cost-effective. The Fair Tax Commission has a major responsibility to provide advice in this area.

In this Budget, I am proceeding with three measures that will tighten up the tax base and contribute to better tax expenditure management.

First, I am announcing the capping of the three-year mining tax exemption to target the incentive more effectively. The exemption will be limited to the first $10 million of profits from qualifying mines earned after April 30, 1991.

Second, because of its structure, the small business deduction in Ontario's corporate income tax system is currently available to corporations regardless of their size or profitability. I will therefore be introducing measures, to be effective January 1, 1992, to focus the benefits on small Canadian-controlled private corporations.

Third, the Ontario Motorist Protection Plan, introduced by the previous government, created an inequity by exempting insurance companies from the tax on certain auto insurance premiums. As of midnight tonight, this inequity will be removed by eliminating the exemption.

Together, these tax changes will generate $70 million this fiscal year.

I am also concerned about the potential for non-resident companies to shift income outside the country. Income earned in Canada should be subject to Canadian income tax. I have asked the federal Minister of Finance to examine, in consultation with the provinces, the rules regarding thin capitalization and transfer pricing.

Responsible management also requires some changes to tax rates.

First, the capital tax on banks and loan and trust companies will increase from 0.8 per cent to 1.0 per cent, effective midnight tonight. This is still the lowest provincial rate on banks and loan and trust companies in the country.

Second, as of midnight tonight, the tax per cigarette will be increased by 1.67 cents to 6.5 cents, with an equivalent increase on cut tobacco. It has been estimated that each year tobacco-induced diseases cause 13,000 premature deaths in Ontario. My colleague, the Minister of Health, will be announcing details of the Provincial Tobacco Control Strategy. This tobacco tax increase will play a key role in this strategy, particularly in discouraging young people from smoking. It is expected that this tax increase, when combined with the federal three cent increase, will result in a decline in tobacco consumption by Ontario smokers of close to 15 per cent.

Finally, levies on all alcohol products will increase by five cents per litre effective May 27, 1991.

The total revenue impact of these tax rate changes is estimated at $280 million this fiscal year. Details of all tax changes can be found in Budget Paper A.

Conclusion

Mr. Speaker, this Budget sets out our vision of the future of this province. I want to add a few words about our vision of the future of this country.

As Premier Rae has said many times, we have a long history together as Canadians, a history that binds us in many real and intangible ways. Today, every province in Canada is facing serious economic and social challenges. We are stronger if we face them together.

Our vision of sustainable prosperity for Ontario embraces a renewed and revitalized Confederation. We believe there is an important role for national leadership to secure the Canadian economic union.

We must find a new consensus for the future. Canada must be made to work in the interests of all parts of the country and all parts of society. Ontario is prepared to play a constructive and positive role in this endeavour.

Mr. Speaker, the Budget I am tabling in the Legislature this afternoon is one which puts a strategic focus on sustainable prosperity and fairness.

This Budget contributes to recovery at a time of serious recession. We will not cut back on the delivery of basic services to the people of Ontario when so many families are hurting.

We are creating some 70,000 jobs through our investment in the economy.

We are helping unemployed workers re-enter the workforce. We are expanding our commitment to technology and innovation, with renewed emphasis on training.

We are providing tax relief for the working poor. We are making a substantial commitment to reforming our social assistance system.

We are significantly expanding Government commitments to affordable housing. We are making a major contribution to a healthy environment.

We are providing assistance for farmers. We are addressing the special needs of aboriginal peoples and the North.

We are improving and expanding pay equity for women and employment equity initiatives.

We are committed to managing the deficit through effective fiscal management based on an open process that involves participation by the people who use public services and those who provide them.

We are putting forward a multi-year fiscal plan. We are proposing a new management system in health care, in partnership with health care providers.

We are committed to developing other partnerships with labour, business and communities so that we may work together to meet the challenges of social and economic change.

Mr. Speaker, we made a choice in this Budget to fight the recession, not this year's deficit, because we believe that is the priority for the people of Ontario. We will not sacrifice the essential services that Ontarians need. We are dedicated to maintaining quality health care and education. We will invest in the future and in jobs to help strengthen our province.

We are laying the foundation for a sound recovery and working towards a more productive, equitable and sustainable economy.

Thank you, Mr. Speaker.

BUDGET PAPER A

Details of Revenue Measures

This Budget Paper provides further information on the revenue measures outlined in the Budget Statement. For more detailed information the reader is advised to consult the amending legislation.

The Income Tax Act

Surtax

- Effective July 1, 1991, the Ontario surtax rate will be increased from 10 per cent to 14 per cent of Ontario income tax in excess of $10,000.
  - The surtax rate for the 1991 taxation year will be 12 per cent. Withholdings at source will be made at the rate of 14 per cent beginning July 1, 1991.
  - The surtax rate for the 1992 and subsequent taxation years will be 14 per cent.

Ontario Tax Reduction

- The Ontario Tax Reduction program has been enriched for the 1991 and subsequent taxation years. The supplements in respect of each dependent child age 18 or under and each dependant with a disability are increased from $200 to $350.

All enquiries regarding personal income tax changes should be directed to:

Taxation Policy Branch
Ministry of Treasury and Economics
5th Floor, Frost Building South
7 Queen's Park Crescent East
Toronto, Ontario
M7A 1Y7
1-416-327-0230

The Gasoline Tax Act

Rate Changes

- Effective midnight tonight:
  - Gasoline tax rates will be increased by 1.7 cents per litre, to 13 cents per litre for unleaded gasoline and 16 cents per litre for leaded gasoline.
  - The tax rate on aviation gasolines and fuels will be increased by 0.3 cents per litre, to 2.4 cents per litre.
- Effective January 1, 1992:
  - Gasoline tax rates will be increased by 1.7 cents per litre, to 14.7 cents per litre for unleaded gasoline and 17.7 cents per litre for leaded gasoline.
  - The tax rate on aviation gasolines and fuels will be increased by 0.3 cents per litre, to 2.7 cents per litre.
- The tax rate on propane used in automobiles remains unchanged at 4.3 cents per litre.

Administrative Amendments

- To counter tax evasion, the Minister of Revenue will introduce amendments to the Act for the registration and bonding of importers and exporters of petroleum products, the registration of interjurisdictional transporters of such products and the increase of penalties and fines for violations of the Act. Subject to a "due diligence" test, directors of corporations that are Ontario tax collectors will be made "jointly and severally" liable for any amount payable under the Act and not paid by the corporation.

The Fuel Tax Act

Rate Changes

- Effective midnight tonight:
  - The general diesel fuel tax rate will be increased by 1.7 cents per litre, to 12.6 cents per litre.
  - The tax rate for diesel fuel used in railway locomotives will be increased by 0.55 cents per litre, to 3.95 cents per litre.
- Effective January 1, 1992:
  - The general diesel fuel tax rate will be increased by 1.7 cents per litre, to 14.3 cents per litre.
  - The tax rate for diesel fuel used in railway locomotives will be increased by 0.55 cents per litre, to 4.5 cents per litre.

Administrative Amendments

- To counter tax evasion, the Minister of Revenue will introduce amendments to the Act for the registration and bonding of importers and exporters of petroleum products, the registration of interjurisdictional transporters of such products and the increase of penalties and fines for violations of the Act. Subject to a "due diligence" test, directors of corporations that are Ontario tax collectors will be made "jointly and severally" liable for any amount payable under the Act and not paid by the corporation.

All enquiries regarding gasoline and fuel tax changes should be directed to:

Motor Fuels and Tobacco Tax Branch
Ministry of Revenue
P.O. Box 625
33 King Street West
Oshawa, Ontario
L1H 8H9
English: 1-800-263-7965
French: 1-800-668-5821

The Tobacco Tax Act

Rate Changes

- Effective midnight tonight:
  - Tobacco tax rates will be increased by 1.67 cents, to 6.5 cents per cigarette and per gram, or part gram, of cut tobacco.

Inventories

- Wholesalers will be required to declare their cigarette and cut tobacco inventories as of midnight tonight and to remit tax on such inventories as directed by the Ministry of Revenue.

Administrative Amendments

- Subject to a "due diligence" test, directors of corporations that are Ontario tax collectors will be made "jointly and severally" liable for any amount payable under the Act and not paid by the corporation. Other administrative amendments will also be proposed.

All enquiries regarding tobacco tax changes should be directed to:

Motor Fuels and Tobacco Tax Branch
Ministry of Revenue
P.O. Box 625
33 King Street West
Oshawa, Ontario
L1H 8H9
English: 1-800-263-7965
French: 1-800-668-5821

The Retail Sales Tax Act

Tax on Fuel Inefficient Vehicles

- Tax rates on vehicles currently subject to the tax on fuel inefficient vehicles will be increased effective July 1, 1991. See Table 1 for details.
- Also effective July 1, 1991, new fuel inefficient passenger vehicles with highway fuel consumption ratings between 8.5 and 9.4 litres per 100 kilometres will be subject to the tax rates shown in Table 1 at the time of purchase.
- Vehicles commonly referred to as sport utility vehicles, with highway fuel consumption ratings equal to or greater than 8.5 litres per 100 kilometres, will also be subject to the new tax rates.

Schedule of Tax Rates on Fuel Inefficient Vehicles **Table 1**

Highway Fuel Consumption Ratings (L/100 km)	Tax ($)
over 18.0	7,000
15.1 - 18.0	4,400
12.1 - 15.0	2,400
9.5 - 12.0	1,200
9.0 - 9.4	700
8.5 - 8.9	200

All enquiries regarding retail sales tax changes should be directed to:

Retail Sales Tax Branch
Ministry of Revenue
P.O. Box 623
33 King Street West
Oshawa, Ontario
L1H 8H7
English: 1-800-263-7965
French: 1-800-668-5821

The Corporations Tax Act

Small Business Deduction

- Effective January 1, 1992, a surtax will be introduced on the taxable income of Canadian-controlled private corporations claiming the Ontario small business deduction where the corporation's taxable income exceeds $200,000. The surtax will be equal to the lesser of:
  - 3.7 per cent of taxable income in excess of $200,000; and
  - the amount of the small business deduction claimed.

  This will eliminate the small business deduction for taxable incomes over $500,000.

- Where the corporation is a member of an associated group, the surtax will be allocated among associated corporations based on the allocation used by the corporations in claiming the small business deduction. For the purposes of calculating the surtax, the taxable income of the associated corporations will be the aggregate of the taxable income of each corporation in the associated group for its nearest taxation year ending on or before the date of the corporation's year end. Specific provisions will be included to calculate the surtax for corporations with short taxation years.
- The surtax will be prorated for corporations with taxation years straddling December 31, 1991, according to the number of days in the taxation year after December 31, 1991.

Capital Tax: Banks and Loan and Trust Companies

- The capital tax rate for banks and loan and trust companies will be increased from 0.8 per cent to 1.0 per cent.
- This change will be effective for taxation years ending after April 29, 1991. For taxation years straddling April 29, 1991, the tax rate increase will be prorated according to the number of days in the taxation year after April 29, 1991.

Insurance Premiums Tax: Elimination of Exemption for Insurance Companies

- The exemption from insurance premiums tax provided by subsection 66(1a) of the *Corporations Tax Act* will be eliminated. As a result, the insurance premiums tax will now apply to gross premiums payable under all automobile insurance contracts.
- This change will be effective for taxation years ending after April 29, 1991. For taxation years straddling this date, gross annual premiums that are no longer exempt will be prorated according to the number of days in the taxation year after April 29, 1991. Both the introduction of the exemption and its elimination will be implemented on a pro rata basis. In both cases, companies will be required to prorate relevant gross premiums according to the number of days in the taxation year after the effective date.

Concordance with the Income Tax Act (Canada)

- The changes to the *Income Tax Act* (Canada) and their effective dates with respect to changes to the tax treatment of certain leases of depreciable assets will be adopted for Ontario corporate income tax purposes.
- As a result of these changes, the moratorium on sale and leaseback transactions for publicly financed institutions is now eliminated.

All enquiries regarding corporate tax changes should be directed to:

Corporations Tax Branch
Ministry of Revenue
P.O. Box 622
33 King Street West
Oshawa, Ontario
L1H 8H6
English: 1-800-263-7965
French: 1-800-668-5821

The Mining Tax Act

Limiting the Three-year Exemption for New Mines

- The thirty-six-month exemption from mining tax for new mines, major expansions of existing mines and certain mine rehabilitations will be limited to $10 million of profit per mine.
- The limitation will apply to eligible profits that are earned after April 30, 1991. Profits earned by qualifying mines prior to May 1, 1991 will not be considered in determining the applicable $10 million exemption.

All enquiries regarding mining tax changes should be directed to:

Corporations Tax Branch
Ministry of Revenue
P.O. Box 622
33 King Street West
Oshawa, Ontario
L1H 8H6
English: 1-800-263-7965
French: 1-800-668-5821

Fees and Licences

Passenger Vehicle Registration Fees

- For registration renewals and new registrations effective on or after May 1, 1991, annual registration fees for passenger vehicles operated by Northern Ontario residents who qualify for reduced fees under the *Highway Traffic Act* will be eliminated.
  - Registration fees for commercial motor vehicles weighing 3,000 kilograms or less used for personal purposes, motorized mobile homes and passenger cars will be reduced to $0 from $33.
  - Registration fees for motorcycles will be reduced to $0 from $18.
- Those northern residents who have already paid for a renewal period commencing on or after May 1, 1991 will be automatically rebated the payment in full.

All enquiries regarding these changes should be directed to:

Licensing and Control Branch
Ministry of Transportation
Main Floor, East Building
2680 Keele Street
Downsview, Ontario
M3M 3E6
1-416-235-2999

Revenue from Spirits, Wine and Beer

- Effective May 27, 1991:
  - The volume levy applied to each litre of spirits, wine, coolers and beer will increase by five cents. The new levies will be 29.0 cents per litre of spirits and wine; 19.0 cents per litre of cooler; and 12.6 cents per litre of beer.
  - Proportionate increases in the levy will apply to all other bottle/package sizes of these products.

All enquiries regarding these changes should be directed to:

Liquor Control Board of Ontario
Communications Office
55 Lake Shore Boulevard East
Toronto, Ontario
M5E 1A4
1-800-668-5226

Revenue Changes: 1991 Budget Fiscal Impact Summary Table 2
($ Millions)

	1991-92	Full Year
Personal Income Tax		
Surtax Rate Increase	60	90
Ontario Tax Reduction Enrichment	(5)	(50)
Gasoline Tax Rate Increase[1]	205	410
Diesel Fuel Tax Rate Increase[1]	45	90
Tax on Tobacco Products[2]		
Cigarette Rate Increase	210	240
Cut Tobacco Rate Increase	10	10
Retail Sales Tax		
Fuel Inefficient Vehicles[2]	30	45
Corporations Tax		
Improving the Targeting of the Small Business Deduction	0	15
Capital Tax Increase to 1.0% for Banks and Loan and Trust Companies[1]	15	20
Elimination of Insurance Premiums Tax Exemption[3]	50	100
Mining Tax		
Limiting Three-year Exemption	20	35
Motor Vehicle Registration Fee Reduction	(15)	(15)
LCBO Profits/LLBO Fees, Licences and Permits[2]		
Increase Volume Levy by 5¢	45	55
Total Impact of Revenue Changes	**670**	**1,045**
Changes Previously Announced:		
Retail Sales Tax Side by Side GST[4]	(470)	(470)
Ontario Current Cost Adjustment Eligibility and Sunset[5]	(115)	(5)
Ontario Tax Reduction Changes[5]	(35)	(35)
Net Impact of All Revenue Changes	**50**	**535**

1 Net of Corporate Income Tax
2 Inclusive of Retail Sales Tax
3 Net of Corporate Income Tax and for 1991-92 net of adjustment to introduction of exemption.
4 Treasurer's Statement to the Legislature on "The Current Fiscal Situation of the Province of Ontario", October 11, 1990.
5 Treasurer's Statement to the Legislature on "Dealing with the Recession and Preparing for Recovery", December 4, 1990.

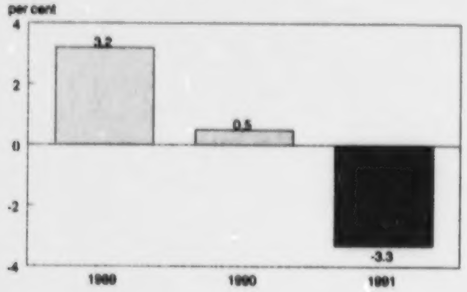
BUDGET PAPER B

Economic Outlook

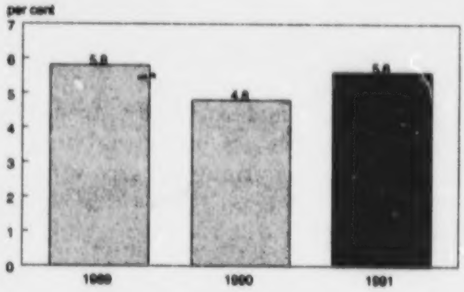
Ontario Outlook: 1991 Highlights

- Ontario's real Gross Domestic Product (GDP) is expected to decline by 3.3 per cent in 1991. The recession in Ontario, which began in the second quarter of 1990, is expected to run for five quarters. A modest recovery is forecast to get under way in the third quarter of 1991.
- The Consumer Price Index (CPI) in Ontario is anticipated to rise 5.6 per cent in 1991. In the absence of the Goods and Services Tax (GST), inflation in 1991 would fall well below last year's level of 4.8 per cent.

Real Growth: 1989 to 1991

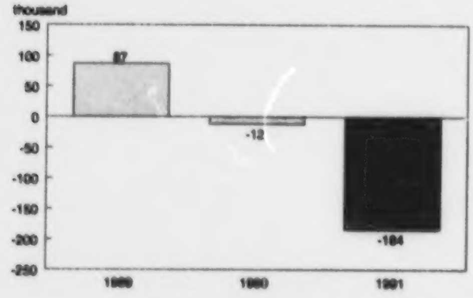


CPI Inflation: 1989 to 1991

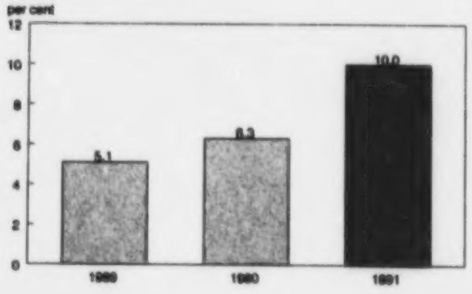


- Employment in Ontario is expected to drop by 184,000 in 1991.
- Ontario's unemployment rate is forecast to average 10.0 per cent in 1991, up from 6.3 per cent in 1990.

Job Creation: 1989 to 1991



Unemployment Rate: 1989 to 1991



- Ontario's growth over the 1992-94 period is forecast to average 3.7 per cent. Ontario's CPI inflation rate is expected to average less than 4.0 per cent over the period and the unemployment rate is forecast to decline to 7.8 per cent by 1994.

Key Factors

Interest rates, the exchange rate, oil prices and international economic performance, particularly in the United States, are fundamental factors in determining Ontario's economic outlook. The next sections review the outlook for these key external factors.

The Exchange Rate and Financial Markets

The high interest rate policy pursued by the Bank of Canada and the resulting high Canadian dollar pushed the Ontario economy into a recession in the spring of 1990.

Although short-term interest rates have come down four percentage points since last August, real interest rates remain high by historical standards. The Bank of Canada is expected to keep interest rates high in an attempt to achieve its inflation target of three per cent by the end of 1992. Nevertheless, the weakness in the economy should allow a further modest decline in interest rates in 1991. The chartered banks' prime lending rate is expected to average 10.4 per cent in 1991, compared to an average of 14.0 per cent in 1990.

The dollar is expected to trend down from its recent 86-87 cents U.S. level to 84 cents U.S. by the end of the year, as Canada-U.S. interest rate spreads continue to narrow.

Energy Prices

Oil prices rose in the second half of 1990 in anticipation of supply disruptions and the prospect of war following Iraq's invasion of Kuwait. Oil prices have stabilized following the resolution of the Gulf War and are expected to fall slightly over the remainder of the year.

- Prices for West Texas Intermediate (WTI) grade oil averaged U.S. $25 per barrel in 1990, up 25 per cent from the previous year. Following the August 2nd invasion of Kuwait, oil prices rose from U.S. $20 per barrel in the first half of 1990 to an average of nearly U.S. $30 per barrel in the second half of 1990. The price averaged U.S. $23 per barrel in the first quarter of 1991.
- The benchmark WTI oil price at Chicago is expected to average U.S. $19.50 in 1991.

The International Outlook

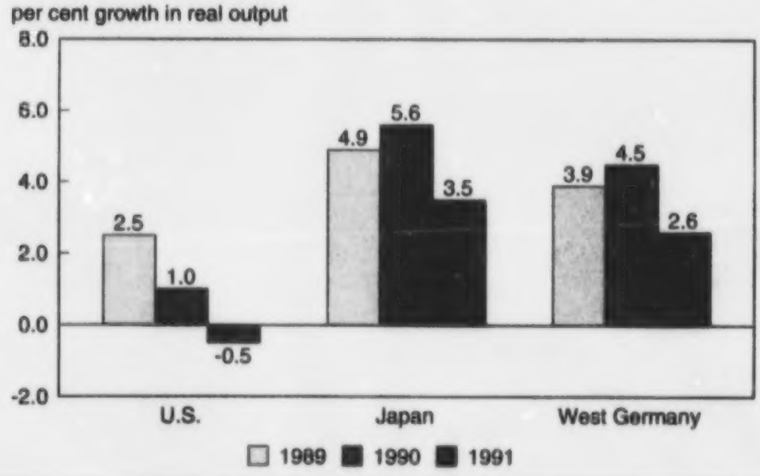
International exports, nearly 90 per cent of which are shipped to the United States, account for about 30 per cent of Ontario's GDP.

Growth prospects for the world economy have continued to weaken in 1991. Real output in the Organization for Economic Co-operation and Development (OECD) countries is projected to average 1.2 per cent, following growth of 2.4 per cent in 1990 and 3.2 per cent in 1989. Despite slowing economic activity throughout the industrialized world, global interest rates are not likely to ease significantly. The modernization of eastern Europe, especially eastern Germany, and the rebuilding of Kuwait will add to the demand for funds while the fragile state of Japanese financial and real estate markets is expected to limit the availability of Japanese capital.

The United States entered a recession in the final quarter of 1990. Monetary easing by the Federal Reserve Board, the successful conclusion of the Gulf War and a resumption of consumer and business confidence should lead the United States economy into recovery by the third quarter of 1991. Although interest rates have eased, strict credit conditions in the United States have acted as a major constraint on demand and, if continued, could delay and weaken the recovery.

Solid growth in Japan and Germany supported world demand in 1990 but internal developments and weak external demand are anticipated to slow growth in both countries in 1991. Slower export growth and higher interest rates are expected to slow Japanese growth to 3.5 per cent in 1991, from a 5.6 per cent increase in 1990.

International Economic Outlook: 1989 to 1991



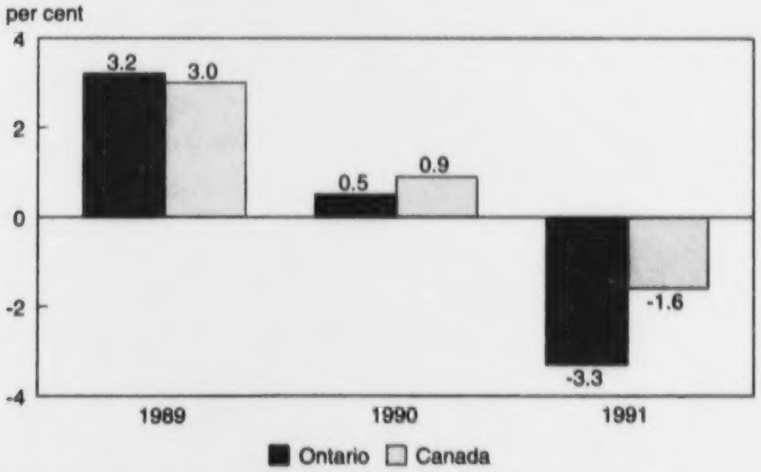
Germany's growth is expected to slow to 2.6 per cent in 1991, following a 4.5 per cent increase in 1990. Recent tax increases enacted to curb the rising budgetary deficit will slow growth. The Bundesbank is expected to keep interest rates up to dampen inflationary pressures.

Canadian Outlook

The Canadian economy entered a recession in the second quarter of 1990 and the contraction is expected to last until mid-1991. Weakness nationwide hurts Ontario since interprovincial exports account for 13 per cent of Ontario's GDP. Although the recession is expected to last five quarters in both Ontario and Canada, the downturn is expected to be much more severe in Ontario. The recession has hurt the rest of the country but remains most severe in the manufacturing-intensive regions of central Canada.

- Increased oil industry investment in Newfoundland and Nova Scotia will be offset by reduced fish quotas.
- Energy investment projects in Quebec will partially offset a weak manufacturing sector.
- Alberta and Saskatchewan will also benefit from increased energy exploration and development. However, weak grain prices and a decline in harvests are expected to hurt the Prairie provinces.
- British Columbia's forestry industry output will be down due to weak housing activity in Canada and the United States. However, the impact is being cushioned by strong interprovincial and international immigration and continuing growth in exports to the Pacific Rim.

Growth in Real Domestic Product: 1989 to 1991



Ontario's Economic Outlook

The recession in the United States and in the rest of Canada combined with high real interest rates, the high dollar and low consumer confidence will cause the Ontario economy to shrink by 3.3 per cent in 1991.

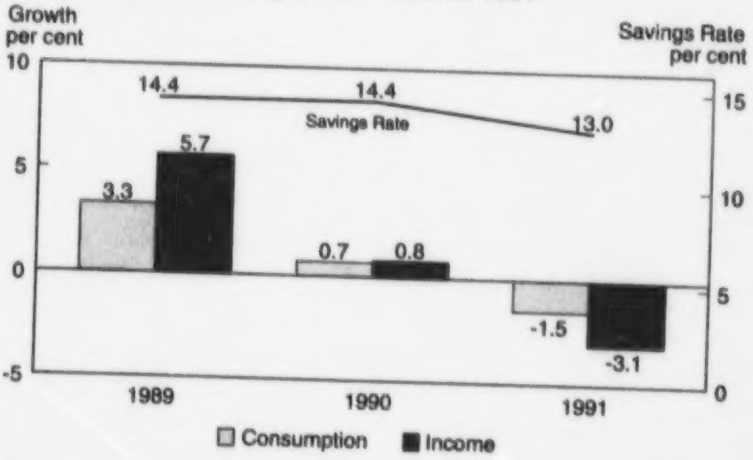
- The peak-to-trough output loss during the current recession of 5.0 per cent is expected to approach in severity the 5.9 per cent drop experienced in 1981-82.
- Peak-to-trough employment losses are expected to be higher than 1981-82 in both absolute terms (268,000 versus 223,000) and percentage terms (5.4 versus 5.3 per cent). Compared to 1981-82, a much larger proportion of layoffs during this recession is attributed to partial and complete plant closures rather than temporary plant shutdowns. This reflects the structural adjustment challenges facing Ontario as a result of increased global competition, the Free Trade Agreement (FTA), the GST and the continued high value of the Canadian dollar.

Consumer Spending

In 1990, real consumer spending rose by 0.7 per cent, well below the 3.3 per cent growth recorded in 1989 and the average annual growth of 5.2 per cent from 1983 to 1988. The retrenchment in consumer spending reflected moderation in income growth, high interest rates, low consumer confidence and a weak housing market.

- High debt levels combined with high interest rates and a deterioration in consumer confidence kept the savings rate stable in 1990 at 14.4 per cent.

Real Consumption, Real Personal Disposable Income and the Savings Rate: 1989 to 1991



- Disposable income growth was constrained primarily by weak employment growth and the federal clawback of Old Age Security (OAS) and Family Allowance Payments. An increase in government transfers for social assistance and unemployment insurance only partially offset weakness in labour and investment income.

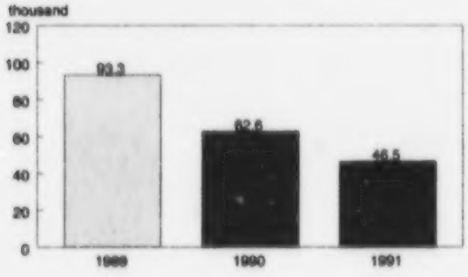
The introduction of the GST, weaker growth in incomes and high consumer debt levels will lead to a 1.5 per cent decline in real consumer spending in 1991.

- The introduction of the GST will accentuate the weakness in consumer spending in the first quarter of 1991, as declines in semi-durables and services outweigh a slight improvement in auto purchases. Real consumption is expected to resume growth in the second half of this year, aided by lower interest rates and improvement in the housing and labour markets.
- Real personal disposable income is forecast to decline by 3.1 per cent in 1991, following a 0.8 per cent rise in 1990. Wage gains in 1991 will not be sufficient to compensate for the record postwar job losses. A significant rise in government support payments will help to sustain income levels.
- A decline in the personal savings rate in 1991, in response to lower interest rates and recovering consumer confidence, is expected to cushion the drop in real consumption.

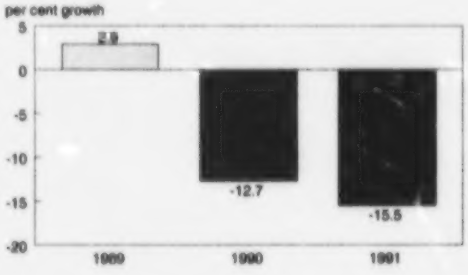
Housing

Housing starts totalled 62,649 in 1990, a 32.9 per cent decline from the previous year. Housing demand was weak in 1990 as interest rates rose, employment declined, consumer confidence fell and expectations of further price declines pervaded the market. The oversupply of expensive homes and condominiums and the reversal of net-interprovincial migration also contributed to the slump in housing market spending.

Housing Starts: 1989 to 1991



Real Residential Investment: 1989 to 1991



- Total real residential investment fell 12.7 per cent in 1990. New home construction, resale activity and renovation activity all fell sharply in 1990.

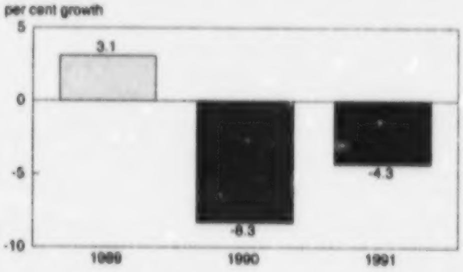
For 1991 as a whole, housing starts are projected to fall to 46,500. However, 17,000 socially assisted housing starts are anticipated for calendar year 1991, more than double last year's level, accounting for over one-third of total starts expected this year. Real residential construction is expected to fall 15.5 per cent in 1991, reflecting lower new home construction and a drop in renovation activity. Resale activity is expected to continue to build on its strong start early this year, primarily due to lower mortgage rates, stable home prices and a return to moderate economic growth in the second half of 1991.

- The resurgence in sales of new homes will be reflected in increased starts and construction activity during the second half of 1991. Housing starts are expected to rise from an annual pace of less than 40,000 in the first half of 1991 to 55,000 in the second half. However, the pick-up in housing starts will continue to be restrained by high unemployment and an oversupply of larger homes and condominiums.

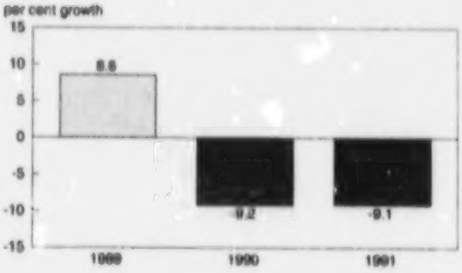
Business Investment

Real business investment was scaled back 8.6 per cent in 1990. Lower capacity utilization and weak demand reduced the need for increased capacity while high real interest rates, the high dollar and the weakness in consumer spending produced a sharp drop in profits, limiting the funds available for investment.

Real Business Machinery and Equipment Investment: 1989 to 1991



Real Business Non-Residential Construction: 1989 to 1991



Real investment spending is expected to drop by a further 5.9 per cent in 1991. A return to substantial investment growth is not expected until the fourth quarter. Although profits are projected to recover in mid-year, businesses will likely use funds initially to reduce debts.

- Despite lower interest rates, and the reduction in capital costs provided by the introduction of the GST and the doubling of the Ontario Current Cost Adjustment to 30 per cent, real machinery and equipment spending is expected to fall by 4.3 per cent in 1991.

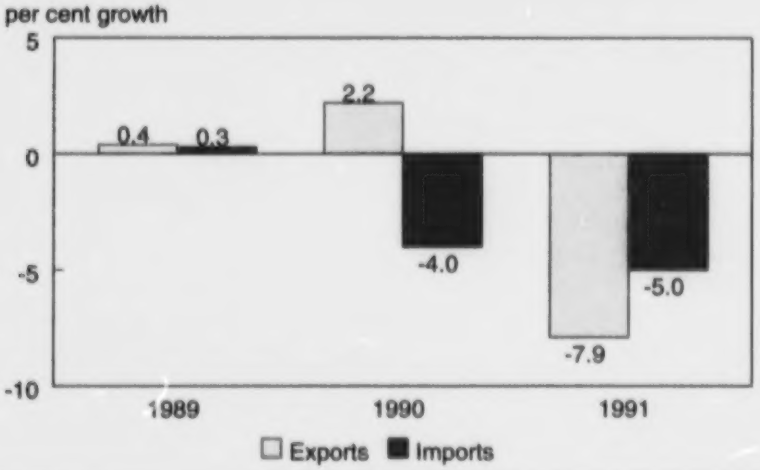
- Real spending on non-residential construction is forecast to drop 9.1 per cent in 1991. The glut in office and retail space and overcapacity in industrial plants will be partially offset by stronger investment spending in the utilities sector.
- Pre-tax corporate profits are expected to fall by 6.9 per cent in 1991, following a 25.7 per cent decline over the previous two years.

External Trade

Ontario's overall real trade balance improved by $6.8 billion in 1990, as the weak economy cut import demand. Exports fell in the second half of the year as the United States entered a recession.

In 1991, Ontario's real trade balance is expected to deteriorate from $12.7 billion in 1990 to $8.6 billion, a drop of $4.1 billion.

Real Ontario Trade: 1989 to 1991



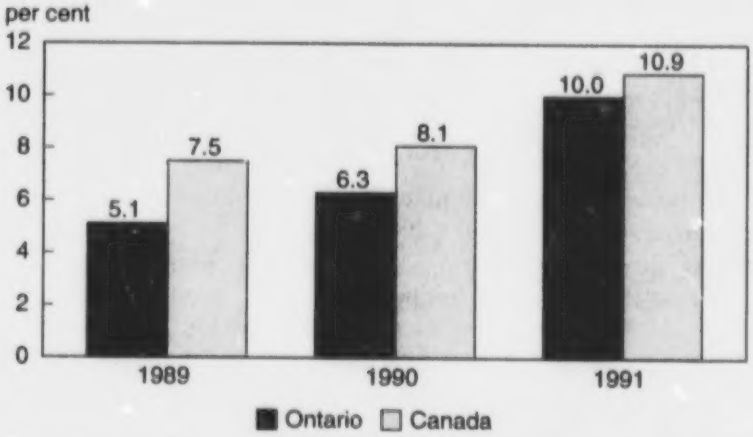
- Ontario's real exports are forecast to fall by 7.9 per cent in 1991. Ontario's export industries continue to be hurt by the high value of the Canadian dollar, weak North American auto sales and the recession in the rest of Canada.
- Manufactured goods, which account for about 75 per cent of Canada's merchandise exports and almost 90 per cent of Ontario's merchandise exports, have been particularly hard hit during the current recession. Some of these manufacturing operations have been shut permanently and, as a result, exports are expected to recover more slowly than following previous recessions. Nevertheless, a rebound in North American auto sales will lead to modestly positive export growth in the second half of 1991.
- Ontario's real imports are expected to fall by five per cent in 1991. The weakness in consumer spending, the drop in machinery and equipment investment and the decline in auto exports account for the fall in imports.

Labour Markets

Total employment in Ontario fell 12,000 in 1990 and is predicted to drop by an additional 184,000 in 1991.

- Significant job losses began in March of last year, about the same time as the start of the recession which began in the second quarter of 1990. Job losses accelerated in late 1990 and into early 1991. Significant job creation is not expected to resume before mid-year, concurrent with the pick-up in economic activity.

Unemployment Rates, Ontario and Canada: 1989 to 1991



Ontario's unemployment rate is forecast to average 10.0 per cent in 1991, up from 6.3 per cent in 1990.

- It is typical of recoveries that initial employment gains are weaker than the rebound in overall economic activity. Consequently, while job losses in the first half of 1991 are expected to be heavy, the gain in employment in the second half will be moderate. The decline in the unemployment rate will also be slowed by an increase in labour force participation as job prospects improve.

The Canadian unemployment rate is projected to rise 2.8 percentage points to 10.9 per cent in 1991.

Employment Impact of Increased 1991-92 Deficit

This Budget makes a significant contribution to fighting the recession in Ontario. The decision to allow the deficit to rise by $6.7 billion from last year's $3.0 billion level creates or sustains over 70,000 jobs. If the deficit had been restrained to the 1990-91 level, these jobs would have been lost and the unemployment rate in Ontario would be more than a full percentage point higher than the 10.0 per cent projected for calendar year 1991.

- Direct anti-recession spending by the Provincial Government of $670 million this year will result directly and indirectly in over 18,000 person-years of employment.

The decision not to tax the GST and the enrichment of both the Ontario Current Cost Adjustment (OCCA) and the Ontario Tax Reduction (OTR) which took effect at the beginning of 1991 will increase employment by 6,000 jobs in 1991-92. Tax measures announced in the Budget have been phased in to reduce their impact on the recovery. Nevertheless, they will reduce employment by 4,000 jobs this year. The net impact of these two sets of tax moves is to increase employment by 2,000 jobs this year.

Other Budget measures in manufacturing and housing will create or sustain nearly 4,000 jobs this fiscal year.

- The $57 million Manufacturing Recovery Program, which is designed to assist viable small and medium-sized firms to survive the recession, will preserve an estimated 3,000 jobs this year.
- The development of 10,000 newly announced social housing units will result in the creation of 600 jobs during the current fiscal year.

The decision to maintain public services and provide income support for those suffering most from the recession will contribute more than $6 billion in purchasing power to Ontarians in 1991-92. This purchasing power creates or protects another 47,100 jobs, mainly in the retail, service and manufacturing sectors.

Job creation associated with new initiatives in this Budget or funded by this Budget is shown in Table 1.

Employment Impact of Increased 1991-92 Deficit Table 1

	Change from 1990-91 ($ Millions)	Employment Impact
Anti-Recession Spending	670	18,200
Manufacturing Recovery Program	-*	3,000
Social Housing - New Initiatives	-**	600***
Tax Relief (No RST on GST, OCCA, OTR)	620	6,000
Tax Increases	(670)	(4,000)
Additional Fiscal Support	6,061	47,100
Total Impact	**6,681**	**70,900**

* This program will provide $57 million, primarily in loans and loan guarantees.

** To cost $150 million in annual operating subsidies at completion.

*** First-year job creation of the newly announced social housing initiative to generate 10,000 units.

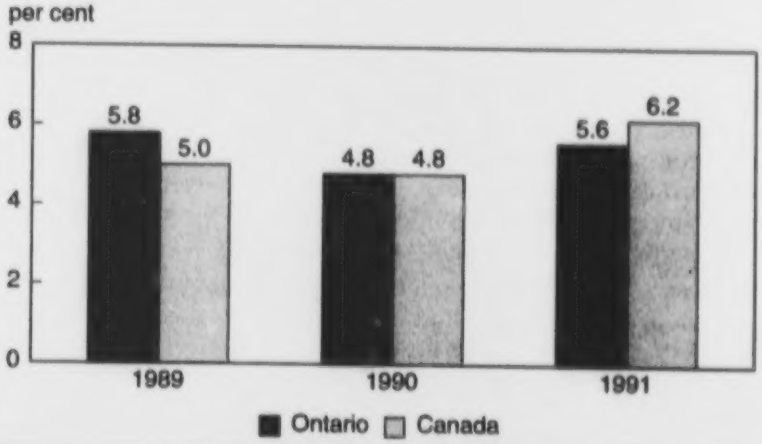
Inflation

The Province's CPI inflation rate fell to 4.8 per cent in 1990, down from 5.8 per cent in the previous year as a result of lower housing costs and the impact of the recession.

In 1991, the Ontario CPI inflation rate is expected to climb to 5.6 per cent. Excluding the inflationary impact of the GST, estimated to be 1.5 per cent in 1991, Ontario's inflation rate would be significantly below the 1990 rate. Stable house prices, lower oil prices and the deflationary impact of the recession will continue to restrain inflation in 1991.

The Canadian CPI inflation rate is expected to be 6.2 per cent, well above Ontario's rate. The recession in the rest of Canada is less severe and, as a result, inflationary pressures are anticipated to be stronger than those in Ontario.

Consumer Price Index Inflation
Ontario and Canada: 1989 to 1991



Medium-Term Outlook

Key Assumptions

The medium-term forecast is based on three key assumptions:

- Growth in international economies, particularly the United States, remains modest;
- Real interest rates remain high by historical standards; and
- International oil prices are stable near current levels.

The United States economy is forecast to grow at an average annual pace of 2.5 per cent over the 1992-94 period. This is markedly slower than the 4.6 per cent annual rate of growth in the three years following the previous recession. Monetary policy in the United States is expected to be relatively tight over the medium term, as the Federal Reserve Board remains concerned about inflation.

While real interest rates in Canada are expected to remain high, nominal interest rates are assumed to decline as the Bank of Canada sticks to its inflation target range, bringing inflation in Ontario down to an average of 3.7 per cent over the 1992-94 period, compared to an average CPI inflation rate for Ontario of 5.4 per cent over the 1989-91 period.

- The prime lending rate is projected to average 8.7 per cent in the medium term, falling to 8.0 per cent in 1994.

Oil prices are anticipated to remain near U.S. $20 per barrel over the medium term.

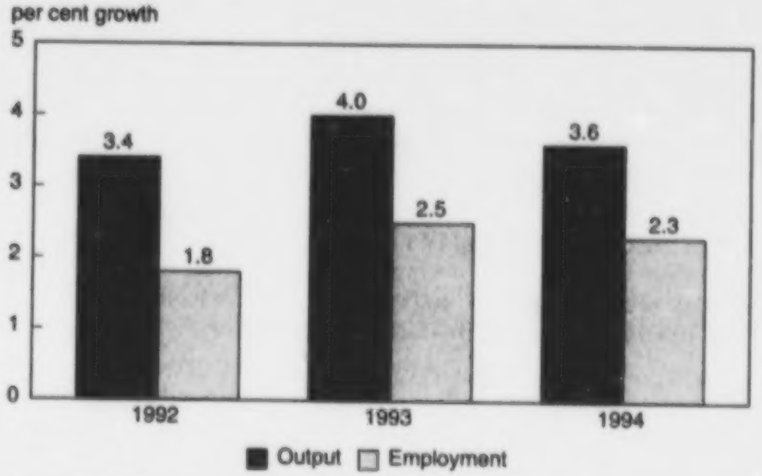
Outlook

Over the 1992-94 period, real output growth in Ontario is expected to average 3.7 per cent, significantly slower than the 5.9 per cent average growth recorded in the three-year period following the last recession. The primary reasons for the slower growth are high real interest rates, the continuing high value of the Canadian dollar, weaker United States growth and ongoing structural adjustment associated with increasing global competition and the FTA.

Investment in housing as well as plant and equipment is expected to be the main engine of growth, as it was in the mid-eighties. However, trade and consumer spending are expected to play a smaller role in this recovery than in the previous recovery. Slower growth in domestic demand in the United States and the high dollar will restrain growth in net exports. Overall consumer spending growth will be more moderate than during the previous recovery because of slower growth in employment and incomes, high debt loads and the lower personal savings rate coming out of the current recession.

The Bank of Canada's high interest rate policy is expected to keep CPI inflation in Ontario below four per cent over the medium term. Despite the fact that inflation shows little improvement over the period, it comes reasonably close to the top of the Bank's 1.5-3.5 per cent target range for mid-1994.

Ontario Real Output and Employment: 1992 to 1994



Employment growth during the 1992-94 period is forecast to average 2.2 per cent or 107,000 jobs per year. The unemployment rate is expected to average 8.7 per cent over the medium term, falling from 10.0 per cent in 1991 to 7.8 per cent by 1994. This rate of decline is similar to the experience following the last recession, when the unemployment rate fell from 10.3 per cent in 1983 to 8.0 per cent in 1985. Labour force growth is expected to average 1.3 per cent over 1992-94, compared to the 1.9 per cent annual growth following the last recession.

With improving labour market conditions and a restoration of consumer confidence, real consumer spending is expected to increase by 2.4 per cent per year, slightly faster than the 2.0 per cent growth in personal disposable income. The projected rise in consumer spending over the 1992-94 period is much weaker than the 5.1 per cent average annual increase over the 1983-85 period due to slower housing growth and the lower savings rate.

Housing starts are expected to increase in 1992 to 69,000, as the current excess inventory of unsold homes is absorbed and employment and income gains support demand. Over the medium term, housing starts are projected to average 72,000 per year. Recent declines in interest rates and house prices have improved housing affordability. This improved affordability, coupled with higher levels of international immigration and pent-up demand from the recession, will strengthen new home construction over the medium term. Real residential investment is forecast to expand at an average 10.1 per cent per year, over the 1992-94 period, slower than the 14.5 per cent annual pace following the 1981-82 recession.

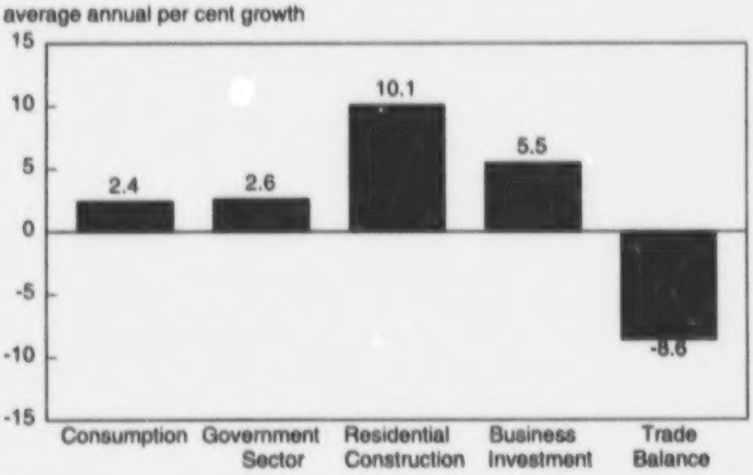
Business investment is expected to recover over the medium term, as firms invest to meet increasing global competition. Total real business investment in plant and equipment is forecast to grow at a fairly rapid average annual rate of 5.5 per cent over the medium term, although below the 8.5 per cent annual growth recorded during the 1983 recovery period.

Ontario's exports are projected to play a smaller role in this recovery than in previous recoveries. Real exports are forecast to rise by an annual average rate of 4.3 per cent over the medium term, compared to 10.6 per cent growth recorded in the three years following the last recession. Export growth will be limited by slower worldwide growth, especially in the United States.

A cyclical recovery in North American auto sales is expected due to pent-up demand and the shift in the demographic profile of the population into peak car-buying years. The Ontario auto assembly industry is well positioned to benefit from increased demand as a result of the major investments in assembly plants during the mid-eighties.

While exports are anticipated to grow, the overall trade balance is expected to decline as imports of machinery and equipment lead to more rapid overall import growth. Import growth is expected to average 5.3 per cent annually over the medium term.

Sources of Real Growth: 1992 to 1994



Ontario Economy, 1989 to 1994 Table 2

	(per cent change)					
	1989	1990	1991	1992	1993	1994
Real Gross Domestic Product	3.2	0.5	-3.3	3.4	4.0	3.6
Consumption	3.3	0.7	-1.5	2.5	2.4	2.3
Government	3.7	5.4	6.6	2.8	2.7	2.2
Residential Construction	2.9	-12.7	-15.5	14.0	8.9	7.6
Non-residential Construction	8.6	-9.2	-9.1	1.5	5.1	5.5
Machinery and Equipment	3.1	-8.3	-4.3	4.5	6.8	7.4
Exports	0.4	2.2	-7.9	4.2	4.9	3.8
Imports	0.3	-4.0	-5.0	7.0	4.8	4.0
Gross Domestic Product	9.0	3.4	0.6	7.3	7.4	6.9
Other Economic Indicators						
Retail Sales *	4.0	-0.1	-5.3	5.6	5.4	5.1
Housing Starts (000s)	93.3	62.6	46.5	69.0	72.0	75.0
Personal Income	10.0	7.5	2.8	6.1	6.3	6.1
Corporate Profits (before taxes)	-5.4	-21.5	-6.9	24.2	13.0	8.0
Consumer Price Index						
Canada	5.0	4.8	6.2	3.9	3.8	3.7
Ontario	5.8	4.8	5.6	3.7	3.8	3.7
Labour Market						
Labour Force	1.9	1.0	0.3	1.4	1.3	1.4
Employment	1.8	-0.2	-3.7	1.8	2.5	2.3
Unemployment Rate (%)	5.1	6.3	10.0	9.7	8.6	7.8

* Retail Sales include Federal Sales Tax in 1989-1990 but exclude GST after 1990.

BUDGET PAPER C
Fiscal Review and Outlook

Introduction

This paper:

- provides a review of the 1990-91 fiscal performance;
- presents the 1991-92 fiscal plan; and
- provides a medium-term fiscal outlook.

1990-91 Fiscal Performance

In 1990, Ontario entered a recession, after one of the longest economic expansions of the postwar period. Weaker than expected revenues, particularly from taxation sources, and higher than anticipated expenditures, mainly due to rising social assistance caseloads, combined to produce a deficit of $3,045 million.

1990-91 Budget Update Summary **Table 1**
($ Millions)

	Budget Plan 1990-91	Interim	In-Year Change
Revenue	44,536	43,470	(1,066)
Expenditure	44,506	46,515	2,009
Surplus (Deficit)	**30**	**(3,045)**	**(3,075)**

The deficit represents a change of $3,075 million from the level reported in the original Budget Plan and is $573 million higher than anticipated when the present Government assumed office in October, 1990.

1990-91 Revenue

Revenue performance in 1990-91 reflected the general slow-down in economic activity through the latter half of 1990. Interim results for 1990-91 indicate that revenue inflows for the year totalled $43,470 million, down $1,066 million from the Budget forecast. This decline included in-year increases to the federal transfer of Personal Income Tax (PIT) and Canada Assistance Plan (CAP) payments.

PIT revenue was $930 million above the original Budget forecast. The increase in revenue was due to larger than anticipated federal adjustments to current and prior year tax entitlements.

The increase in PIT was partly offset by a decrease of $85 million in federal payments under the Established Programs Financing (EPF) arrangement. This decrease is related to the negative impact of PIT increases on the EPF cash transfer and other offsetting increases.

The weakness in the economy significantly affected the performance of Corporations Tax and Retail Sales Tax (RST) revenue. Sharply lower corporate profits reduced Corporations Tax revenue by $1,044 million from the original Budget plan of $4,842 million.

Declines in goods consumption, exacerbated by the introduction of the federal Goods and Services Tax (GST), and the decision not to impose RST on GST, resulted in an in-year decrease in RST revenue of $783 million.

Lower than anticipated consumption of gasoline and fuels due to the slow-down in economic activity and higher oil prices, resulted in $130 million lower than projected revenue from Gasoline and Fuel Taxes.

Reduced activity in the real estate sector combined with lower than expected average selling prices, resulted in a decline in Land Transfer Tax revenue of $268 million.

Revenue received from the Commercial Concentration Tax decreased by $22 million from forecast, due to a smaller than expected tax base.

In-year taxation revenue decreases were partly offset by an increase of $48 million in the Employer Health Tax due to higher than expected final payments.

Other taxation revenue declines of $25 million included: Public Utilities Income Tax, Mining Profits Tax and Race Tracks Tax.

Non-taxation revenue sources were $178 million below the original Budget plan. Revenue from Fines and Penalties decreased $50 million, due to lower than anticipated revenues from fines imposed through Provincial courts. Revenue from Interest on Investments decreased by $58 million as a result of lower than expected levels of liquid reserves.

Revenue from Vehicle/Driver Registrations was $22 million below forecast because of a lower than anticipated level of registrations.

Other in-year decreases in non-taxation revenue were recorded in Sales and Rentals, which declined by $45 million due mainly to lower than expected sales of Government land. Revenue from Other Fees and Licences declined by $24 million from various sources including real property and company registrations, and fishing and hunting licences.

Revenue from Lottery Profits declined by $23 million from forecast due to lower than expected sales. Revenue from Royalties was also below the original Budget plan by $18 million, reflecting the slow-down in the demand for forest products.

These declines in non-taxation revenue were partly offset by an increase of $25 million from LCBO Profits, from higher than anticipated sales, an increase of $19 million in reimbursements and an increase of $18 million from a variety of other non-taxation revenue sources.

Total payments from the federal government were $406 million higher than forecast in the Budget. While Established Programs Financing payments declined by $85 million, as previously described, payments to Ontario under the CAP were $441 million above the original Budget plan.

Part of the increase was for prior year claims, while most of the increase reflects significantly higher levels of Provincial spending on cost-shared social assistance programs required to address increased caseloads associated with the downturn in the economy.

The federal five per cent limit on growth in CAP entitlements has not been acted upon, pending the outcome of the appeal to the Supreme Court of Canada. As a result, revenue losses that would be associated with the CAP limit are not reflected in payments to Ontario. However, if the Supreme Court rules in favour of the federal government, the 1990-91 payment over the limit, estimated at over $100 million, could be recaptured in 1991-92.

The total for all other payments from the federal government was up by $50 million. The bulk of this in-year revenue increase came from special one-time federal payments to Ontario for agricultural assistance to grains and oilseed producers, the horticultural sector and fur producers.

Summary of In-Year Changes to Revenue in 1990-91 Table 2
($ Millions)

Taxation Revenue:		
Personal Income Tax (Net)	930	
Retail Sales Tax	(783)	
Corporations Tax	(1,044)	
Employer Health Tax	48	
Gasoline Tax	(97)	
Fuel Tax	(33)	
Land Transfer Tax	(268)	
Commercial Concentration Tax	(22)	
Other	(25)	
Sub-Total		(1,294)
Other Revenue:		
LCBO Profits	25	
Vehicle/Driver Registrations	(22)	
Other Fees and Licences	(24)	
Lottery Profits	(23)	
Interest on Investments	(58)	
Royalties	(18)	
Sales and Rentals	(45)	
Fines and Penalties	(50)	
Reimbursements	19	
Other	18	
Sub-Total		(178)
Federal Payments:		
Established Programs Financing	(85)	
Canada Assistance Plan	441	
Other	50	
Sub-Total		406
Total In-Year Changes to Revenue		(1,066)

1990-91 Expenditure

In 1990-91, interim expenditures, at $46,515 million, increased $2,009 million above the level anticipated in the original Budget Plan. Of this increase, $925 million was required to discharge outstanding liabilities, while $1,084 million was required to fund in-year expenditure pressures.

Highlights of Major In-Year Expenditure Changes in 1990-91 Table 3
($ Millions)

Discharge of UTDC loan guarantee	407	
StadCo investment: write-down	322	
Teachers' Pension Fund: special payment	196	925
Social Assistance: increased caseloads, improved benefits	542	
Hospitals: increased operating costs including salaries	121	
Ontario Drug Benefit Program: increased utilization	71	
Pay Equity: phased implementation within Ontario Public Service	61	
Danforth Rail Yard: purchase of facility	55	
Farm Income Assistance Program	55	
September 6 election costs	44	
Provincial Highways: acceleration of construction	32	
Anti-recession capital projects	30	
Ministry of Health: salary shortfall	21	
Court case backlog reduction	17	
Extra fire fighting	15	
Ontario Development Corporation: loan losses	11	
Manitoulin Island land claim settlement	8	
Youth Training and Employment Program	7	
Public Debt interest	6	
Various other (net)	(12)	1,084
Total Change		2,009

Payment of Outstanding Liabilities

Increased funding was required to discharge certain liabilities incurred before this Government took office. The Ministry of Transportation was provided with $407 million to pay off a bank loan and meet other obligations for the 1986 sale of the Urban Transportation Development Corporation (UTDC) to Lavalin Inc. Under the sale agreement, the Province agreed to complete outstanding UTDC contracts and honour warranties for those contracts.

During 1991, this Government invested in promissory notes issued by the Stadium Corporation of Ontario (StadCo). The promissory notes were taken as an interim measure until the completion of the negotiation of a refinancing arrangement for SkyDome. Negotiations were not completed prior to the end of 1990-91 as expected, and without a refinancing agreement in place, these notes could only be evaluated on the basis of the Stadium Corporation's financial viability. As a result, $322 million was charged to expenditures.

The Government paid $196 million for 12 monthly special payments to the Teachers' Pension Plan, with an appropriate adjustment for interest. The special payments, which are prescribed in the *Teachers' Pension Act*, were made towards reducing the unfunded liability of the Plan.

Recession-Related Expenditures

A significant portion of the in-year expenditure increases are related to the worsening economic situation. For instance, the Ministry of Community and Social Services required $542 million more to meet the costs of in-year caseload increases and improved benefits under social assistance programs.

The recession adversely affected most sectors of the economy, including industry and agriculture. The Ontario Development Corporation wrote off $21 million in loan losses, $11 million more than anticipated. The Ministry of Agriculture and Food provided $55 million during the year under the Farm Income Assistance Program to grain and oilseed producers, the horticultural sector and fur farmers.

A number of other ministries also undertook initiatives designed to alleviate the effects of the economic downturn. For example, mild weather permitted the Ministry of Transportation to extend the provincial highway construction season and speed up planned expenditures by $32 million. In addition, several ministries, including the Ministries of Colleges and Universities, Natural Resources and Transportation, implemented capital works under the Government's $700 million anti-recession program. The full $700 million has been committed to specific projects and $30 million has been spent as of March 31, 1991.

The Ministry of Education required $7 million more to fund workload increases at youth employment counselling centres for 15 to 24- year-olds, an age group which typically experiences higher than average unemployment.

Initiatives

The Ministries of the Attorney General, Correctional Services and Solicitor General received $17 million more to hire additional staff and expand capacity in order to speed up the reduction of court case backlogs.

The Ministry of Natural Resources paid $8 million in settlement of the land claim of the United Chiefs and Councils of Manitoulin Island, on behalf of the Ontario Native Affairs Secretariat.

Fulfilling the Government's obligations in the Ontario Public Service under Pay Equity legislation required an additional $61 million.

Other

The Ministry of Health required an additional $121 million for the operation of hospitals, mainly for salary settlements for health care workers. Increased utilization of the Ontario Drug Benefit Plan required a further $71 million, while $21 million was required to fund a salary shortfall in the Ministry's budget, mainly for psychiatric hospitals.

The Government, through GO Transit, purchased the Danforth Rail Yard, a rail storage and light maintenance facility, from Canadian National Railways for $55 million. This site is required to facilitate the expansion of rail services provided to commuters in and around the Greater Toronto Area.

The September 6, 1990, election cost an additional $44 million in 1990-91.

The cost of fighting forest fires in Northern Ontario exceeded the 1990-91 Estimates provision. As a result, the Ministry of Natural Resources required an additional $15 million to meet this contingency.

The $300 million savings and constraints target budgeted in 1990-91 was achieved.

1991-92 Fiscal Plan

The fiscal plan for 1991-92 projects a deficit of $9,726 million. This follows the 1990-91 deficit of $3,045 million.

1991-92 Fiscal Plan Table 4
($ Millions)

	Interim 1990-91	Budget Plan 1991-92	Per Cent Change
Revenue	43,470	43,035	-1.0
Operating Expenditure	43,315	48,471	11.9
Operating Surplus (Deficit)	155	(5,436)	-
Capital Deficit	(3,200)	(4,290)	34.1
Consolidated Deficit	(3,045)	(9,726)	-

Ontario's planned operating deficit is $5,436 million as compared to a $155 million surplus in 1990-91.

1991-92 Revenue

Revenue for 1991-92 is forecast at $43,035 million, a decrease of 1.0 per cent or $435 million below the interim 1990-91 level.

Historically, revenues have grown at a rate of 90 per cent of the nominal growth in provincial gross domestic product (GDP). The major revenue sources of Personal Income Tax, Retail Sales Tax and Corporations Tax are particularly sensitive to changes in economic growth.

The recession reduced nominal GDP growth to 3.4 per cent for 1990, and it is expected to fall further to 0.6 per cent in 1991. If growth in 1990 and 1991 matched the rate of approximately 7 per cent, projected in the medium-term outlook, 1991-92 revenues would be in the range of $3.3 to $3.7 billion higher than is currently forecast.

There will be negative revenue growth in the coming year despite a net addition of $50 million from annualizations of revenue measures. The decline is due primarily to the recession, but a number of other factors have also contributed. Budget measures taken by the federal government are estimated to cost the Province some $1.6 billion in lost revenue in 1991-92. The introduction of a new federal/provincial Reciprocal

Taxation Agreement this year reduces Ontario revenues by an estimated $110 million. In addition, this Government's decision not to impose Retail Sales Tax on top of the federal Goods and Services Tax (GST) results in lost revenue estimated at $470 million.

Personal Income Tax payments are expected to reach $15,975 million in 1991-92, including the cost of the Ontario Tax Reduction enrichment and the surtax increase.

Retail Sales Tax revenue, including Budget measures, is estimated to decline by 2.7 per cent to $7,960 million, reflecting the recession and the resulting slow-down in consumer spending as well as the cost of no RST on GST.

Corporations Tax revenue, including Budget measures, is estimated to fall to a level of $3,170 million as a result of forecast declines in corporate profits and the expectation that corporations will still be in a position to take advantage of loss provisions available in the current tax system.

Tobacco Tax revenue is expected to increase by $165 million to $1,040 million, reflecting revenue raising measures, partly offset by a decline in consumption.

The Employer Health Tax is expected to yield $2,665 million, slightly above the 1990-91 interim level, reflecting the modest growth of wages and salaries.

Revenue from the Land Transfer Tax is estimated at $450 million, up 4.2 per cent from 1990-91, reflecting a modest improvement in overall activity in the housing market. The estimate includes the cost of refunds through the first-time home buyers' program.

Revenue from non-taxation sources is expected to grow by less than 1.0 per cent over the level recorded in 1990-91 and is estimated at $4,101 million. The projected increase includes the impact of Budget measures affecting alcohol levies and the elimination of vehicle registration fees for Northern Ontario residents.

Payments from the federal government are forecast to decline by 7.6 per cent to $5,337 million. The decline largely reflects federal budget actions to limit transfers to provinces for Established Programs Financing, Canada Assistance Plan payments and other federal agreements.

The combined effect of all these factors; lower economic growth ($3.3 billion to $3.7 billion), federal transfer reductions ($1.6 billion) and no RST on GST ($470 million) is estimated to reduce potential 1991-92 revenues by between $5.4 billion and $5.8 billion, adding directly to the Provincial deficit.

Federal Transfer Reductions

Measures taken in the 1990 and 1991 federal budgets have resulted in a five-year freeze in per capita entitlements under EPF and a five-year limit in annual growth of entitlements under the CAP of 5 per cent. In 1991-92, these measures are expected to reduce Ontario's revenue by $1.6 billion. In the case of EPF, these federal actions are only the latest in a series of reductions beginning in the early 1980s that continue to affect Ontario's revenues. Taken together these measures are expected to reduce

Ontario's 1991-92 revenue by $3.6 billion. The federal government has significantly reduced financial commitments in areas where Provincial needs are growing rapidly: health, post-secondary education and social assistance.

Table 5 below details the effect on Ontario of these reductions in federal transfers.

Effects in 1991-92 of Federal Reductions Table 5
($ Millions)

	Measures Taken Prior to 1990	Measures Taken in 1990 and 1991	Total
Canada Assistance Plan	--	1,085	1,085
Established Programs Financing	1,920	545	2,465
Total	**1,920**	**1,630**	**3,550**

1991-92 Expenditure

Total Government expenditure will increase by 13.4 per cent or $6,246 million in 1991-92. Table 6 highlights the program areas which comprise the majority of the increase and illustrates each sector's contribution to the total spending increase.

Major Components of Expenditure Increase Table 6
($ Millions)

	Increase in 1991-92	
	Cost	Share of Increase
Social Assistance Payments	1,420	22.7
Health Operating Transfers for OHIP, ODB and Hospitals	1,223	19.6
Public Debt Interest	679	10.9
Anti-Recession Program	640	10.2
Education Operating Transfers for Schools, Colleges and Universities	557	8.9
Advance Payments	492	7.9
All Other Increases	1,235	19.8
Total Increase	**6,246**	**100.0**

Operating Expenditure

Provincial operating expenditure in 1991-92 is estimated to increase by $5,156 million to $48,471 million, an increase of 11.9 per cent over the interim 1990-91 levels. A breakdown of Ministry operating expenditures is in Table C3.

Expenditure growth in the Ministry of Community and Social Services is anticipated to be $1,804 million, an increase of 28.5 per cent over the interim 1990-91 level. Of that amount, social assistance payments will increase by $1,420 million, or over 40 per cent. This results from a dramatic increase in social assistance caseloads during the recession, the provision of $158 million for further reforms of the social assistance program, and $220 million from rate increases of seven per cent for basic benefits and ten per cent for shelter allowances. Increased funding is also provided to the Ministry for programs such as Child Care and the Multi-Year Plan to place developmentally handicapped persons in the community.

The allocation for the Ministry of Health will rise by $1,607 million or 10.6 per cent. Of this increase, $1,223 million is attributable to the growth in transfers for the Ontario Health Insurance Plan (OHIP), the Ontario Drug Benefit Plan (ODB) and Hospitals. The increase in the transfers to these programs is shown in Table 6 above. Another major component of the Ministry's increase is new and expanded community and consumer health programs, which will increase by $244 million, or 19.8 per cent.

Public Debt Interest (PDI) will increase from $4,316 million in 1990-91 to $4,995 million in 1991-92. This has resulted from financing charges for borrowing necessary to support the 1990-91 deficit and the projected deficit for 1991-92.

The Ministry of Education will receive a 10.9 per cent operating increase to $6,033 million in 1991-92. Contributions to the Teachers' Pension Plan and funding for enrolment growth make up a substantial proportion of the increase. The transfer payment to school boards increased by $367 million or 8.1 per cent and is one component of the $557 million increase for education transfers noted in Table 6.

The 1991-92 budget of the Ministry of Colleges and Universities is $3,062 million, a $204 million or 7.1 per cent increase over the 1990-91 interim level. The major element is increased operating grants to colleges and universities of $190 million. These transfers are included in the $557 million increase in education transfers mentioned above in Table 6. Enhanced resources for the Ontario Student Assistance Program is the other major element of the Ministry's operating increase.

The $492 million net impact of the Advance Payment transactions shown in Table 6 reflects the monies for Health, Education and Colleges and Universities which was advanced and prepaid in 1989-90. It also reflects $196 million in obligations otherwise payable in 1991-92, but paid in 1990-91. As a result, the 1990-91 expenditure base is understated by that amount and the funding base for 1991-92 must be correspondingly increased.

The allocation to the Ministry of Labour will increase from $163 million in 1990-91 to $363 million in 1991-92, a 122.7 per cent increase. A substantial portion of the increase results from the establishment of the Employee Wage Protection Program which will reimburse workers for lost wages, vacation pay, and termination and severance pay in cases where they are left unpaid by the employer. Labour adjustment programs and enhanced resources to implement recent changes to the *Occupational Health and Safety Act* are other key components of the increase.

Expenditures by the Ministry of Housing will increase by 39.2 per cent to $764 million in 1991-92. Operating subsidies for non-profit and cooperative housing units account for most of the increase.

For 1991-92, the target for expenditure savings and constraints has been set at $300 million, including $100 million against capital.

Capital Expenditure

Provincial capital expenditure is estimated to increase by $1,090 million to $4,290 million, an increase of 34.1 per cent over the interim levels. A Ministry breakdown of capital expenditures can be found in Table C3(A).

The anti-recession capital program will create jobs for many Ontarians who are unemployed as a result of the current economic slow-down. This program will provide $670 million for short-term labour-intensive projects throughout the province during 1991-92 of which $620 million is capital. This represents a $640 million increase over 1990-91 anti-recessionary spending, as is noted in Table 6.

In 1991-92, Ministry of Transportation capital spending will increase by $240 million to $2,018 million, a 13.5 per cent increase over interim 1990-91. This increase provides greater resources for highways, roads and transit systems under the Transportation Capital Program. It also includes over $46 million in capital for TTC service and reliability improvements, new subway cars and for the environmental assessment stage of the "Let's Move" initiative.

Colleges and Universities, Education, Health and Northern Development and Mines are other ministries with a large share of Provincial capital spending.

Borrowing and Debt Management

In 1990-91, the Province's total borrowing amounted to $3.7 billion, which was achieved through a diversified borrowing program composed of $3.0 billion in new bond issues, $500 million in treasury bills and $174 million in borrowing from the Province of Ontario Savings Office (POSO) and other deposits. The proceeds of these borrowings were used to finance the $3.0 billion deficit and debt retirements of $688 million.

In 1991-92, total borrowing requirements are forecast at approximately $10.4 billion, which includes $9.7 billion to fund the deficit and $639 million for debt retirements. A substantial portion of the borrowings to fund the deficit will be used for capital purposes as described in Budget Paper D.

The Province's total debt will be $51.7 billion, up from $42.3 billion in 1990-91. As a percentage of GDP, total debt is projected to increase from 15.0 per cent in 1990-91 to 18.3 per cent in 1991-92. Debt per capita was $4,338 in 1990-91 and will be $5,226 in 1991-92. Public Debt Interest as a percentage of revenue is projected to be 11.6 per cent in 1991-92, up from 9.9 per cent in 1990-91.

Although the increased borrowing requirements will be financed through a variety.of sources, reliance will be primarily upon expanded capital market borrowings, which includes bonds and treasury bills. Liquid reserves will be reduced by $350 million to fund a portion of the 1991-92 requirements. A portion of the remaining reserves may be used temporarily as an alternative to borrowing. To complement the flexibility provided by the liquid reserves and to maximize access to all available financing sources, the Province may also borrow up to $1 billion from the

Canada Pension Plan (CPP). In 1991-92 it is estimated that borrowing from POSO and other deposits will be $270 million.

In anticipation of its return to public capital markets in 1990-91, the Province developed a joint global financing strategy with Ontario Hydro to take advantage of financing opportunities in Canadian and international capital markets. The joint strategy ensures close coordination to maximize the effective utilization of all available financing opportunities. Both the Province and Ontario Hydro will be concentrating on borrowing primarily in the Canadian capital market, but both will be consistently seeking the lowest cost financing alternatives.

In recent years, the globalization of capital markets and increased interest rate and currency volatility encouraged the development of a new group of financial products designed to reduce the risk of unforeseen changes. As part of its debt management program, the Province will continue to use these products to take advantage of opportunities for interest savings.

Medium-Term Fiscal Outlook

The fiscal outlook to 1994-95 is outlined in Table 7 below. The outlook is for the consolidated deficit to decline from $9.7 billion in the current year to $7.8 billion by the end of the period. The operating deficit also declines from its current level of $5.4 billion to $3.0 billion by 1994-95.

Assuming continued economic growth, the Government is determined to eliminate the operating deficit by 1997-98. This is comparable to the situation following the 1981-82 recession. These deficit targets will require firm management of the expenditure budget by the Government.

Medium-Term Fiscal Outlook **Table 7**
($ Billions)

	1991-92	1992-93	1993-94	1994-95
Fiscal Outlook				
Revenue	43.0	47.2	51.9	57.0
Expenditures	52.8	56.1	60.3	64.8
Consolidated Deficit	(9.7)	(8.9)	(8.4)	(7.8)
Capital*	4.3	4.6	5.0	5.5
Operating Deficit	(5.4)	(4.5)	(3.8)	(3.0)
Fiscal Indicators				
Deficit as % of GDP	3.4	2.9	2.6	2.2
Deficit as % of Revenue	22.6	18.9	16.2	13.7
PDI as % of Revenue	11.6	12.1	12.3	12.3

* Gross of amortization of $0.2B, $0.4B and $0.7B in 1992-93, 1993-94 and 1994-95.
Numbers may not add due to rounding.

These fiscal projections are based on the Medium-Term Economic Outlook described in Budget Paper B and incorporate the impacts of the 1991-92 revenue and expenditure moves outlined in the Budget.

Revenue growth is projected to average 9.8 per cent annually for the forecast period. Much of this revenue growth will occur naturally as a result of economic growth; however, revenue moves may be required to achieve the target rate. The actual amount of the revenue moves will depend on the natural revenue growth and the success in achieving the spending growth targets.

In 1992-93, expenditure is projected to grow 6.3 per cent. This is a significant reduction from the 1991-92 rate of 13.4 per cent. This reduction reflects:

- a new process for evaluating existing programs which will allow funds to be reallocated to priority areas;
- the lower inflation forecast for Ontario;
- the federal forecast for lower interest rates;
- lower unemployment rates and resultant smaller increases in social assistance caseloads; and
- effective management of service delivery.

For 1993-94 and 1994-95 the total (operating and capital) expenditure growth rates will average 7.5 per cent and approximate the growth in the Ontario Gross Domestic Product (GDP).

Capital spending will increase at above the annual average over the forecast period. Total capital spending increases from $4.3 billion in 1991-92 to $5.5 billion in 1994-95. The increase in capital spending reflects the Government's desire to renew the public infrastructure of the province, including the funds required to expand public transit facilities under the "Let's Move" initiative.

As measured by key fiscal indicators, this fiscal outlook shows a steady improvement in the province's financial position:

- As a proportion of GDP, the deficit declines from 3.4 per cent in 1991-92 to 2.2 per cent in 1994-95.
- The deficit as a percentage of provincial revenues declines from 22.6 per cent in 1991-92 to 13.7 per cent in 1994-95. This is below the 1982-83 level of 16.5 per cent.
- In 1991-92, the Government of Canada will pay out 34 cents in interest payments on the public debt for every dollar in revenue it raises. The same ratio for Ontario is 11.6 cents. As the total debt rises, this level increases to 12.3 cents in 1993-94 and stabilizes thereafter.

Comparative Fiscal Measures

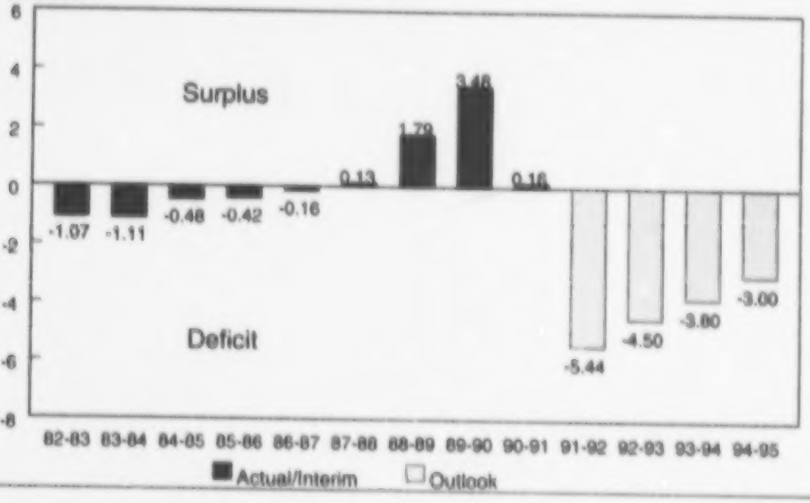
Ontario's fiscal performance can be assessed in terms of a number of commonly used indicators. A ten-year review of selected indicators is found in Table C7. The table has been revised to highlight the operating position in accordance with the new capital presentation.

Ontario's Operating Fund

Ontario's operating position is the difference between revenue and expenditure, excluding net capital expenditure. The operating position reflects the degree to which the Government pays for its day-to-day operating needs from its current revenue.

In 1990-91, despite a decrease of $2,999 million from the level projected in the Budget Plan, Ontario recorded an operating surplus of $155 million. For 1991-92, Ontario is projecting an operating deficit of $5,436 million.

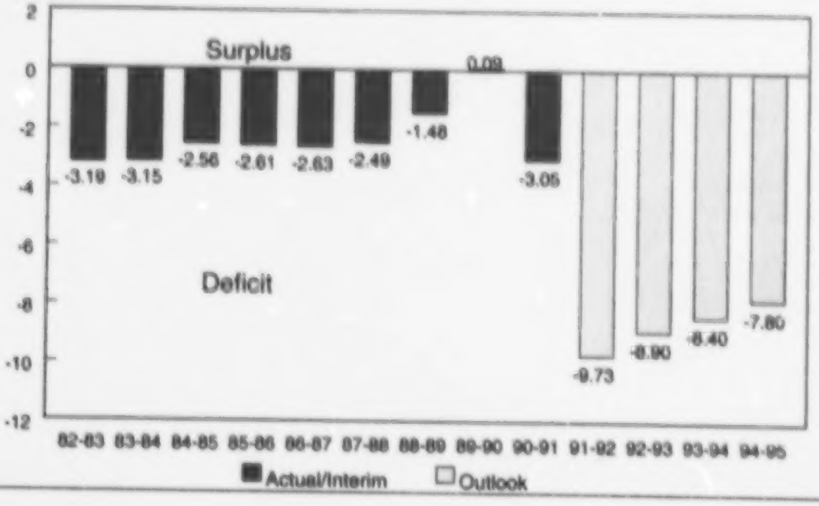
Ontario's Operating Fund
1982-83 to 1994-95
$ billion



Ontario's Surplus/Deficit

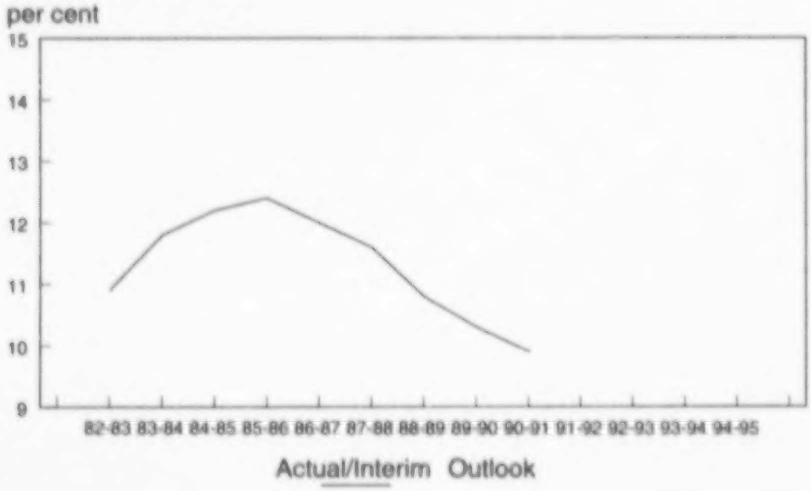
The Provincial deficit is estimated at $3,045 million for 1990-91 and $9,726 million is projected for 1991-92.

Ontario's Surplus/Deficit
1982-83 to 1994-95
$ billion



Debt Measures

Ontario's Public Debt Interest costs are forecast at $4,995 million in 1991-92, an increase of $679 million or 15.7 per cent over 1990-91. This is a result of the 1990-91 and 1991-92 deficits which require increased and accelerated borrowing. Ontario's debt charges as a per cent of revenue will increase from 9.9 per cent in 1990-91 to 11.6 per cent in 1991-92.



Public Debt Interest as a Per Cent of Revenue
1982-83 to 1994-95

Operating Fund

Statement of Financial Transactions
($ Millions)

Table C1

Operating Fund	1989-90	Interim 1990-91	Plan 1991-92
Revenue	41,692	43,470	43,035
Expenditure	38,210	43,315	48,471
Surplus (Deficit)	3,482	155	(5,436)
Financing:			
Debt Issues - Net (Table C5)	(124)	2,832	9,165
POSO and Other Deposits (Table C5)	366	174	270
Net Financing (Table C5)	242	3,006	9,435
Net Loan Repayments (Issues) (Table C6)	27	18	(59)
(Increase) Decrease in Cash	(359)	21	350
Transfer to Capital Fund[1]	(3,392)	(3,200)	(4,290)
Increase (Decrease) in Accumulated Operating Deficit	(3,482)	(155)	5,436

See page 70 for accompanying notes.

Revenue
($ Millions)

Table C2

	1989-90	Interim 1990-91	Plan 1991-92
Taxation Revenue			
Personal Income Tax[2]	13,518	15,440	15,975
Retail Sales Tax	8,549	8,177	7,960
Reciprocal Taxation	133	112	2
Corporations Tax	4,720	3,798	3,170
Employer Health Tax	477	2,662	2,665
Mining Profits Tax	197	116	130
Gasoline Tax	1,356	1,423	1,600
Fuel Tax	348	339	370
Tobacco Tax	770	875	1,040
Land Transfer Tax	701	432	450
Race Tracks Tax	83	83	85
Public Utilities Income Tax	103	49	35
Commercial Concentration Tax	53	101	110
Other Taxation	7	5	5
	31,015	33,612	33,597
Other Revenue			
LCBO Profits	640	650	665
Vehicle/Driver Registration Fees	614	665	680
LLBO Fees, Licences, Permits	427	447	497
Other Fees and Licences	308	474	495
Lottery Profits	491	470	440
Interest on Investments	467	538	460
Royalties	193	187	205
Utility Service Charges	134	141	145
Sales and Rentals	113	96	120
Fines and Penalties	120	150	180
Recoveries	63	50	32
Reimbursements	168	132	107
OHIP Premiums	1,394	5	0
Miscellaneous	181	74	75
	5,313	4,079	4,101
Payments from the Federal Government			
Established Programs Financing	2,616	2,140	2,202
Extended Health Care Services	491	504	512
Canada Assistance Plan	1,762	2,481	1,984
National Training Act	109	112	116
Bilingualism Development	57	69	66
Young Offenders Act	56	57	68
Vocational Rehabilitation	51	47	57
Other	222	369	332
	5,364	5,779	5,337
Total	**41,692**	**43,470**	**43,035**

See page 70 for accompanying notes.

Operating Expenditure[3]
($ Millions)

Table C3

Ministry	1989-90	Interim 1990-91	Plan 1991-92
Agriculture and Food	477	555	576
Attorney General	481	561	628
Board of Internal Economy[4]	101	165	131
Citizenship	42	47	58
Colleges and Universities	2,626	2,858	3,062
Community and Social Services	4,955	6,338	8,142
Consumer and Commercial Relations	153	173	187
Correctional Services	469	544	581
Culture and Communications	268	285	301
Disability Issues, Office for	5	6	6
Education	5,013	5,439	6,033
Energy	26	33	44
Environment	320	376	434
Executive Offices[5]	17	19	17
Financial Institutions	40	56	60
Francophone Affairs, Office of	4	4	4
Government Services	470	467	518
Greater Toronto Area, Office for the	2	4	3
Health	13,525	15,156	16,763
Housing	407	549	764
Industry, Trade and Technology	138	192	192
Technology Fund	72	79	81
Intergovernmental Affairs	4	5	8
Labour	136	163	363
Management Board	50	62	83
Contingency Fund	-	-	195
Municipal Affairs	955	1,000	1,057
Native Affairs Secretariat	6	6	23
Natural Resources	526	583	589
Northern Development and Mines	99	113	108
Revenue	825	873	897
Seniors' Issues, Office for	6	5	6
Skills Development	239	244	265
Solicitor General	454	536	582
Tourism and Recreation	141	152	153
Transportation	728	811	849
UTDC Guarantee	-	407	-
Treasury and Economics	30	35	45
StadCo	-	322	-
Economic Development Projects	35	35	39
Public Debt Interest	4,284	4,316	4,995
Women's Issues, Office Responsible for	17	19	25
Advance Payments:			
Education[6]	140	56	(196)
Health	334	(334)	-
Municipal Affairs	(413)	-	-
Expenditure Savings and Constraints	-	-	(200)
Total	**38,210**	**43,315**	**48,471**

See page 70 for accompanying notes.

Operating Transfers to Local Governments and Agencies
($ Millions)

Table 14

	1989-90	Interim 1990-91	Plan 1991-92
Conditional Transfers			
Grants to School Boards			
General Legislative Grants	4,161	4,522	4,889
Social Assistance			
General Welfare Assistance	794	1,234	2,026
Homes for the Aged	290	316	343
Child Welfare	278	301	346
Day Nurseries	180	217	269
Other	80	98	133
Transportation			
Roads Studies	1	2	1
Transit	203	226	250
Airports	1	1	1
Environment	18	20	33
Health			
Local Health Units	159	186	205
Other	53	56	61
Housing	117	152	193
Agriculture	146	149	154
Conservation Authorities	24	26	29
Library Boards	41	41	43
Recreation	9	9	9
Municipal Affairs	6	8	7
Other	17	19	21
	6,578	7,583	9,013
Unconditional Transfers			
Payments in lieu of Taxes	111	122	125
Unconditional Grants	862	902	947
Unconditional Grants Other	9	7	16
	982	1,031	1,088
Total Transfers Allocated	7,560	8,614	10,101
Advance Payments[7]	(413)	0	0
Total Transfers	7,147	8,614	10,101

See page 70 for accompanying notes.

Financing
($ Millions)

Table C5

	1989-90	Interim 1990-91	Plan 1991-92
Debt			
Issues:	1,882	3,520	9,804
	1,882	3,520	9,804
Retirements:			
Canada Pension Plan	(446)	(476)	(498)
Teachers' Pensions	(189)	(173)	(44)
Public Service Pensions	(712)	(30)	(87)
Public	(650)	-	-
Other	(9)	(9)	(10)
	(2,006)	(688)	(639)
Net Debt Issues (Retirements)	(124)	2,832	9,165
Province of Ontario Savings Office			
- Net Deposits	315	132	214
Other Deposits - Net	51	42	56
Net Financing (Retirements)	**242**	**3,006**	**9,435**

Loans and Investments
($ Millions)

Table C6

	1989-90	Interim 1990-91	Plan 1991-92
Repayments			
Development Corporations	57	51	38
School Boards	34	27	23
Environmental Projects	24	27	20
Tile Drainage Debentures	23	21	21
Other	29	34	29
	167	160	131
Issues			
Developmental Loans	69	57	77
Environmental Projects	33	71	102
Tile Drainage Debentures	13	14	11
Other	25	-	-
	140	142	190
Net Loan Repayments (Issues)	**27**	**18**	**(59)**

Capital Fund

Statement of Financial Transactions Table C1(A)
($ Millions)

Capital Fund[1]	**1989-90**	**Interim 1990-91**	**Plan 1991-92**
Revenue	-	-	-
Expenditure	3,392	3,200	4,290
Deficit	(3,392)	(3,200)	(4,290)
Financing:			
Transfer from Operating Fund	3,392	3,200	4,290
Increase in Accumulated Capital Deficit	3,392	3,200	4,290

See page 70 for accompanying notes.

Capital Expenditure[3]
($ Millions)

Table C3(A)

Ministry	1989-90	Interim 1990-91	Plan 1991-92
Agriculture and Food	32	23	21
Attorney General	11	4	12
Board of Internal Economy[4]	2	-	-
Citizenship	5	8	10
Colleges and Universities	110	115	199
Community and Social Services	106	102	122
Consumer and Commercial Relations	5	-	-
Correctional Services	4	2	8
Culture and Communications	45	38	32
Disability Issues, Office for	2	2	3
Education	310	332	419
Energy	7	13	23
Environment	179	212	266
Executive Offices[5]	-	-	-
Financial Institutions	1	-	-
Francophone Affairs, Office of	-	-	-
Government Services	202	231	322
Greater Toronto Area, Office for the	-	-	-
Health	262	194	250
Housing	115	107	133
Industry, Trade and Technology	4	3	32
Technology Fund	-	-	-
Intergovernmental Affairs	-	-	-
Labour	-	-	-
Management Board	1	-	-
Contingency Fund	-	-	-
Municipal Affairs	19	16	36
Native Affairs Secretariat	-	-	21
Natural Resources	61	84	90
Northern Development and Mines	220	244	261
Revenue	-	-	-
Seniors' Issues, Office for	2	3	3
Skills Development	1	-	-
Solicitor General	44	37	28
Tourism and Recreation	44	52	69
Transportation	1,582	1,778	2,018
Treasury and Economics	-	-	-
Economic Development Projects	16	10	12
Women's Issues, Office Responsible for	-	-	-
Advance Payments:			
Colleges & Universities	-	(110)	-
Education	-	(300)	-
Expenditure Savings and Constraints	-	-	(100)
Total	**3,392**	**3,200**	**4,290**

See page 70 for accompanying notes.

Capital Transfers to Local Governments and Agencies
($ Millions)

Table C4(A)

	1989-90	Interim 1990-91	Plan 1991-92
Conditional Transfers			
Grants to School Boards	310	332	419
Social Assistance			
Homes for the Aged	12	20	35
Children's Services and Other	17	13	12
Transportation			
Roads	674	745	836
Transit	180	175	247
Other	12	11	14
Environment	171	200	257
Housing	7	8	12
Agriculture	6	5	3
Conservation Authorities	25	29	24
Recreation	29	34	31
Municipal Affairs	17	18	36
Other	23	28	49
Total Transfers Allocated	1,483	1,618	1,975
Advance Payments[8]	0	(300)	0
Total Transfers	1,483	1,318	1,975

See page 70 for accompanying notes.

Ten-Year Review of Selected Financial and Economic Statistics
($ Millions)

	1982-83	1983-84	1984-85	1985-86
Financial Transactions				
Revenue	19,367	21,412	23,893	26,240
Expenditure				
Operating	20,434	22,523	24,373	26,655
Capital	2,122	2,042	2,079	2,199
Operating (Deficit) Surplus	(1,067)	(1,111)	(480)	(415)
Capital Deficit	(2,122)	(2,042)	(2,079)	(2,199)
Total (Deficit) Surplus	(3,189)	(3,153)	(2,559)	(2,614)
Accumulated Deficit	16,922	20,075	22,634	25,248
Net Financing (Retirements)	2,601	3,451	2,635	2,863
Total Debt - Includes POSO and Other Deposits (Excludes Ontario Hydro)	23,955	27,406	30,041	32,904
Gross Domestic Product (GDP) at Market Prices[8]	137,310	151,945	171,499	183,561
Personal Income[9]	122,443	131,947	146,193	156,293
Population - June (000s)	8,703	8,798	8,902	9,006
Total Debt per Capita (dollars)	2,752	3,115	3,375	3,654
Personal Income per Capita (dollars)	14,069	14,997	16,422	17,354
Expenditure as a per cent of GDP	16.4	16.2	15.4	15.7
Public Debt Interest as a per cent of Revenue	10.9	11.8	12.2	12.4
Total Debt as a per cent of GDP	17.4	18.0	17.5	17.9
Cumulative Net Borrowing for Ontario Hydro				
U.S.	6,058	6,487	7,206	7,189
C.P.P.	1,000	1,000	1,000	1,000
Contingent Liabilities (mainly Ontario Hydro)	11,122	12,711	14,220	15,963

See page 70 for accompanying notes.

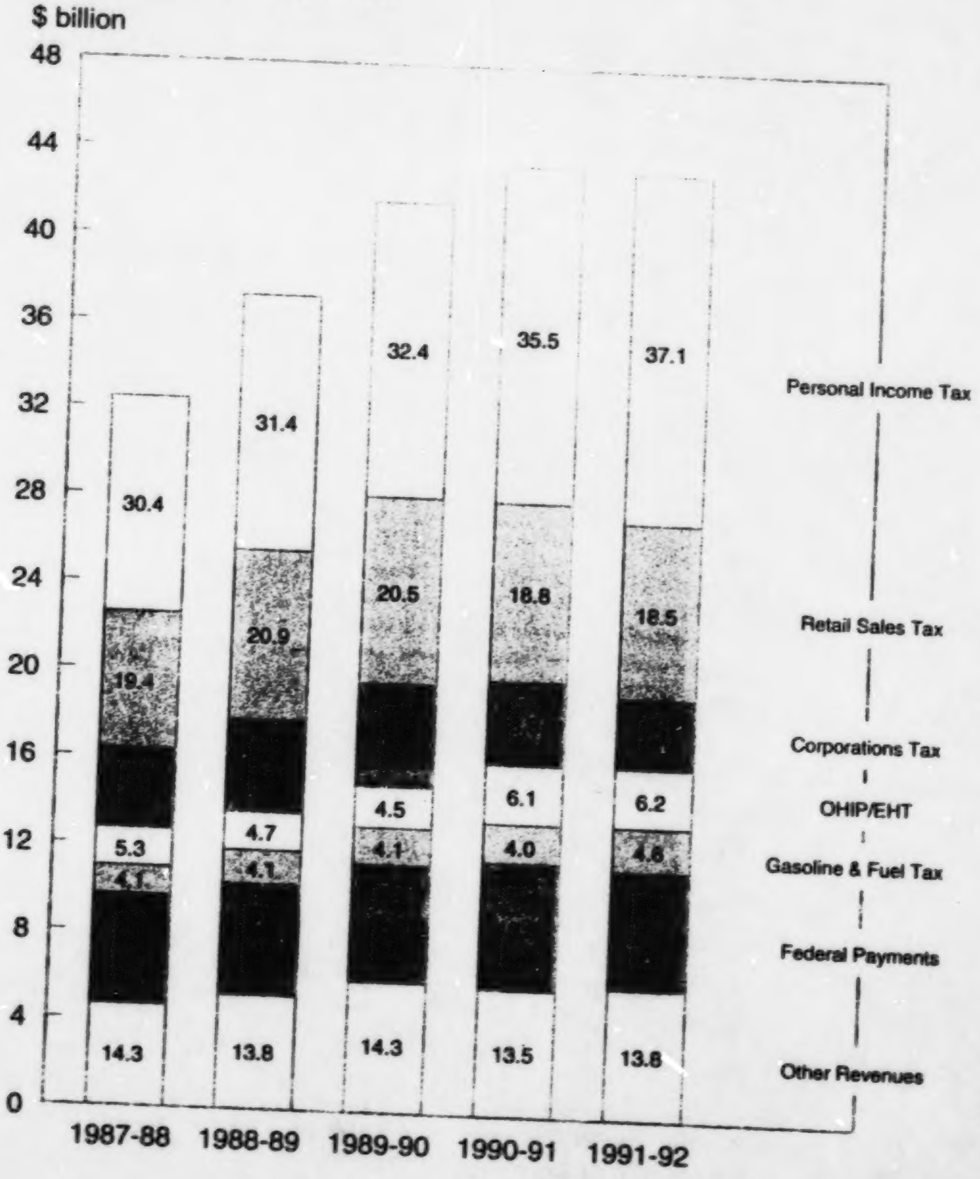
Table C7

1986-87	1987-88	1988-89	1989-90	Interim 1990-91	Plan 1991-92
29,544	32,453	37,256	41,692	43,470	43,035
29,705	32,319	35,467	38,210	43,315	48,471
2,473	2,623	3,268	3,392	3,200	4,290
(161)	134	1,789	3,482	155	(5,436)
(2,473)	(2,623)	(3,268)	(3,392)	(3,200)	(4,290)
(2,634)	(2,489)	(1,479)	90	(3,045)	(9,726)
27,882	30,371	31,850	31,760	34,805	44,531
2,199	1,878	2,033	242	3,006	9,435
35,103	36,981	39,014	39,256	42,262	51,697
201,480	223,975	249,629	272,052	281,415	282,991
169,267	186,883	208,158	228,882	246,146	253,102
9,113	9,265	9,431	9,590	9,743	9,892
3,852	3,991	4,137	4,093	4,338	5,226
18,574	20,171	22,072	23,867	25,264	25,587
16.0	15.6	15.5	15.3	16.5	18.6
12.0	11.6	10.8	10.3	9.9	11.6
17.4	16.5	15.6	14.4	15.0	18.3
6,667	6,033	5,692	5,150	5,049	N/A
1,119	1,508	2,097	2,748	2,748	N/A
17,603	18,595	20,559	21,490	26,029	N/A

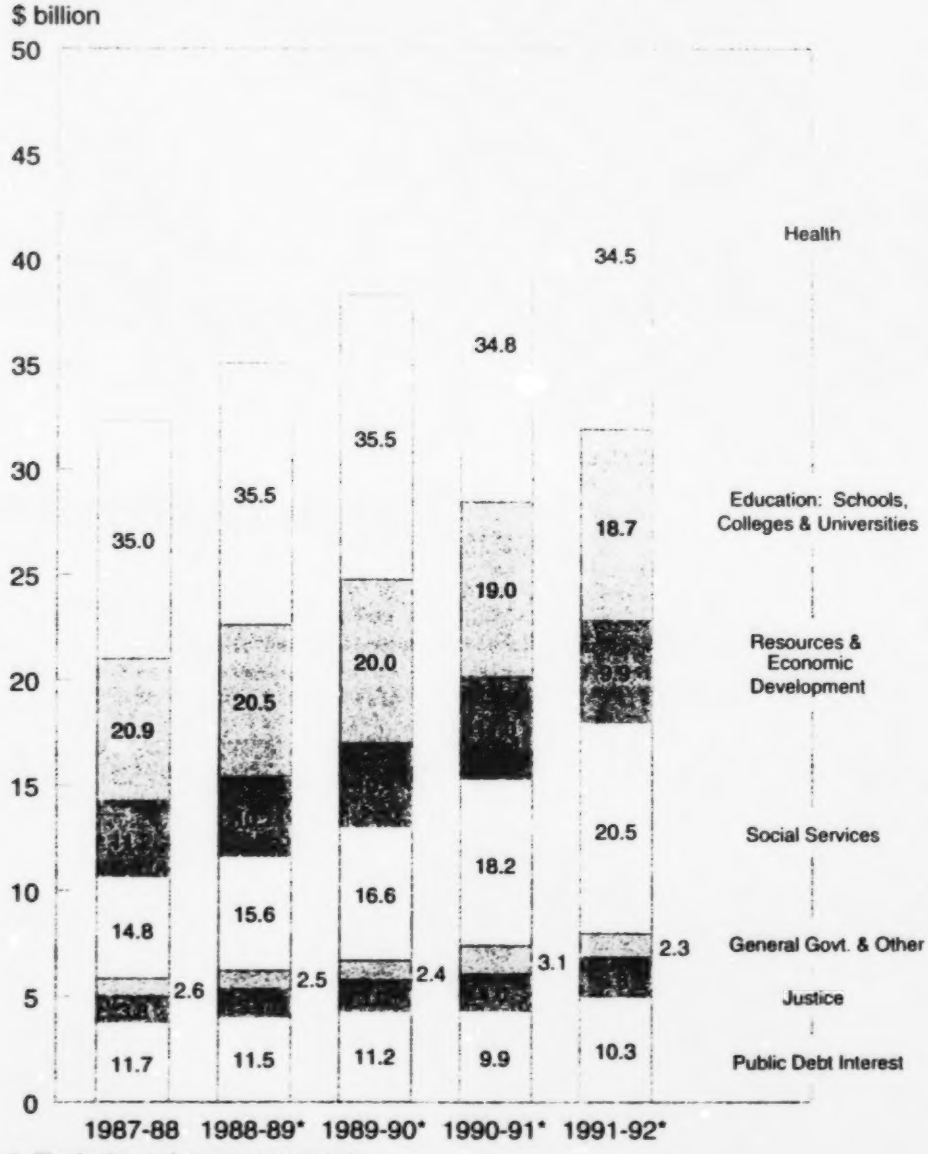
Notes

1. The Capital Fund came into existence April 1, 1991. Prior years' expenditures for capital have been included for comparative purposes only. No provision has been made for ministries' yearly contributions as this change comes into effect in 1992-93. For further details see Budget Paper D.
2. Net of Tax Credits of $378 million in 1989-90, and $380 million for the 1990-91 and 1991-92 fiscal years.
3. Prior years restated to conform with the current Government structure and the new 1991-92 format.
4. Includes Offices of the Assembly, Chief Election Officer, Ombudsman and Provincial Auditor.
5. Includes Offices of the Cabinet, Lieutenant Governor and Premier.
6. In 1989-90, $140 million for the Teachers' Pension Plan special payment was advanced from 1990-91. In 1990-91, $196 million was advanced from 1991-92.
7. In 1988-89, $413 million for the Unconditional Grants was advanced from 1989-90.
8. In 1988-89, $300 million for school capital grants was advanced from 1989-90. In 1989-90, the $300 million allocated for school capital grants was advanced from 1990-91.
9. Gross Domestic Product (GDP) and Personal Income are calculated on a calendar-year basis. The amounts appearing in a fiscal year column are for the preceding calendar year.

Revenue Sources: Per Cent of Total
1987-88 to 1991-92

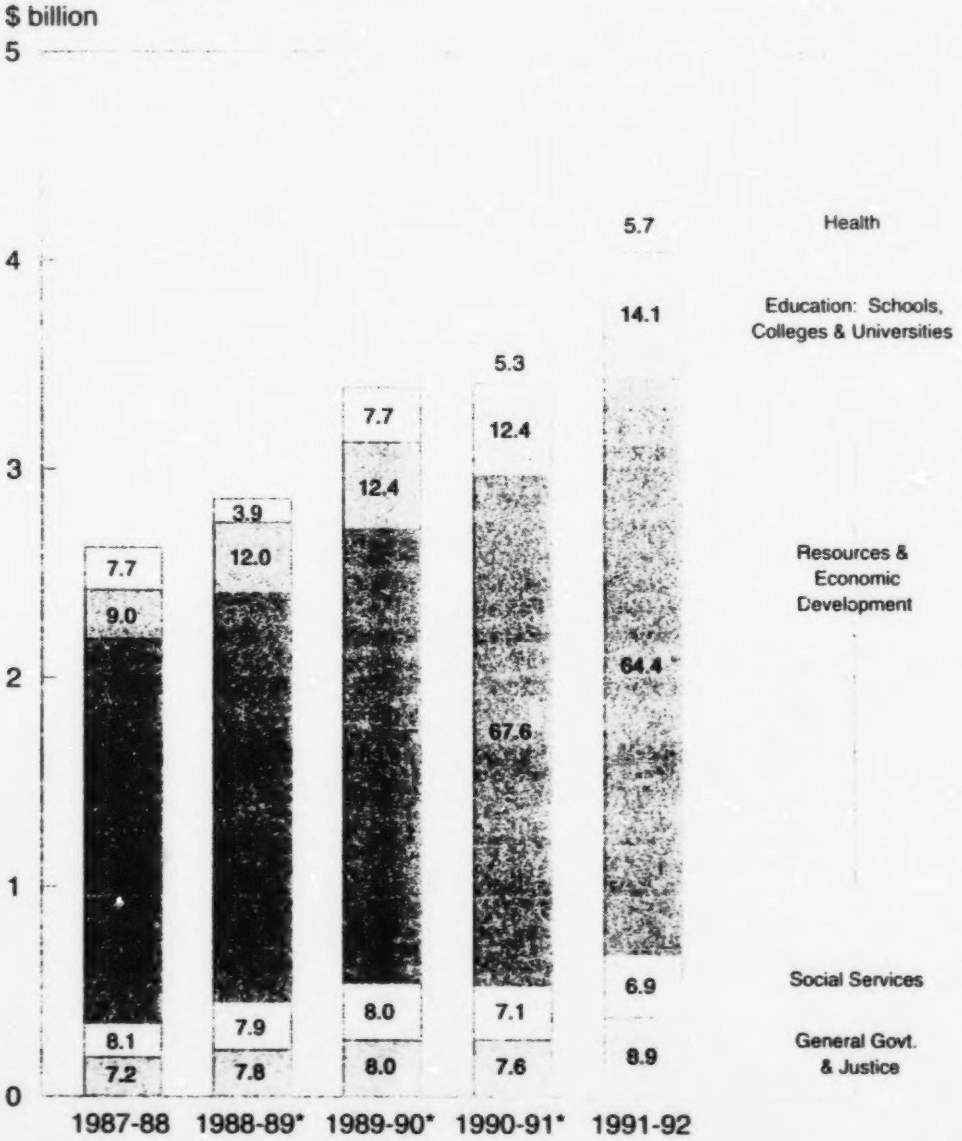


Operating Expenditure Functions: Per Cent of Total
1987-88 to 1991-92



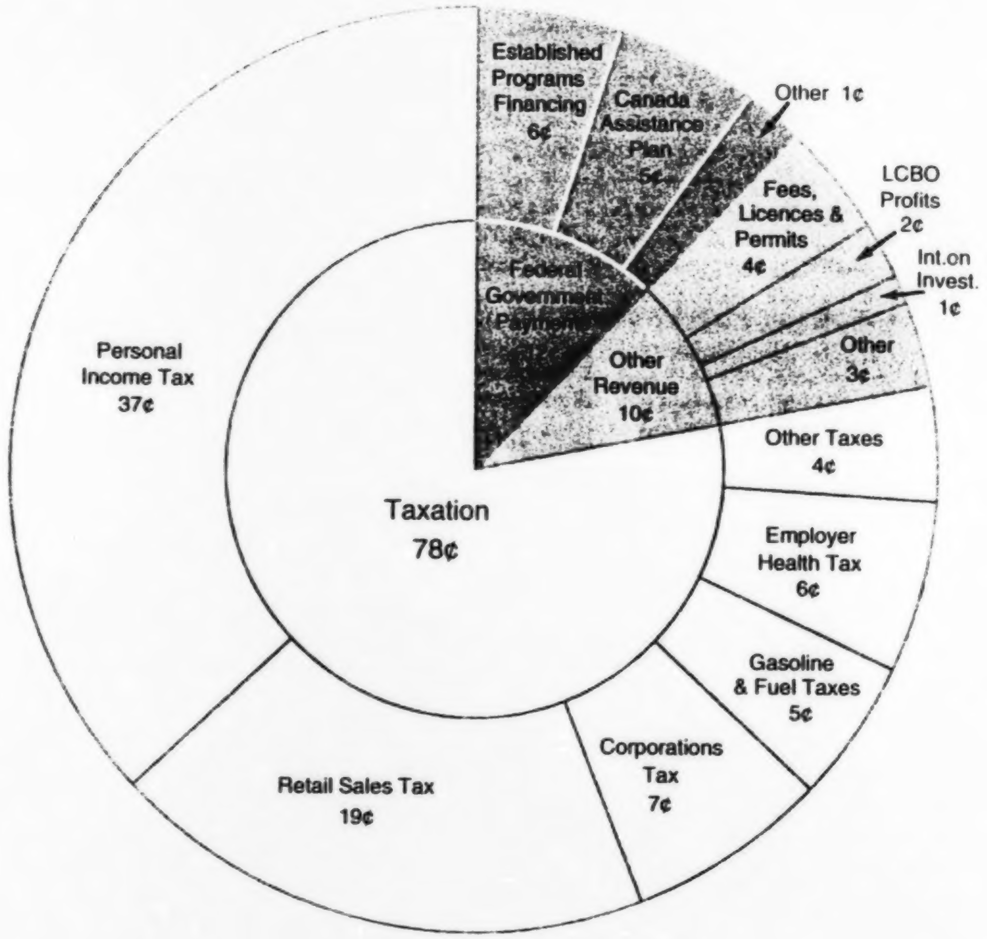
* Excludes advance payments.

Capital Expenditure Function: Per cent of Total
1987-88 to 1991-92

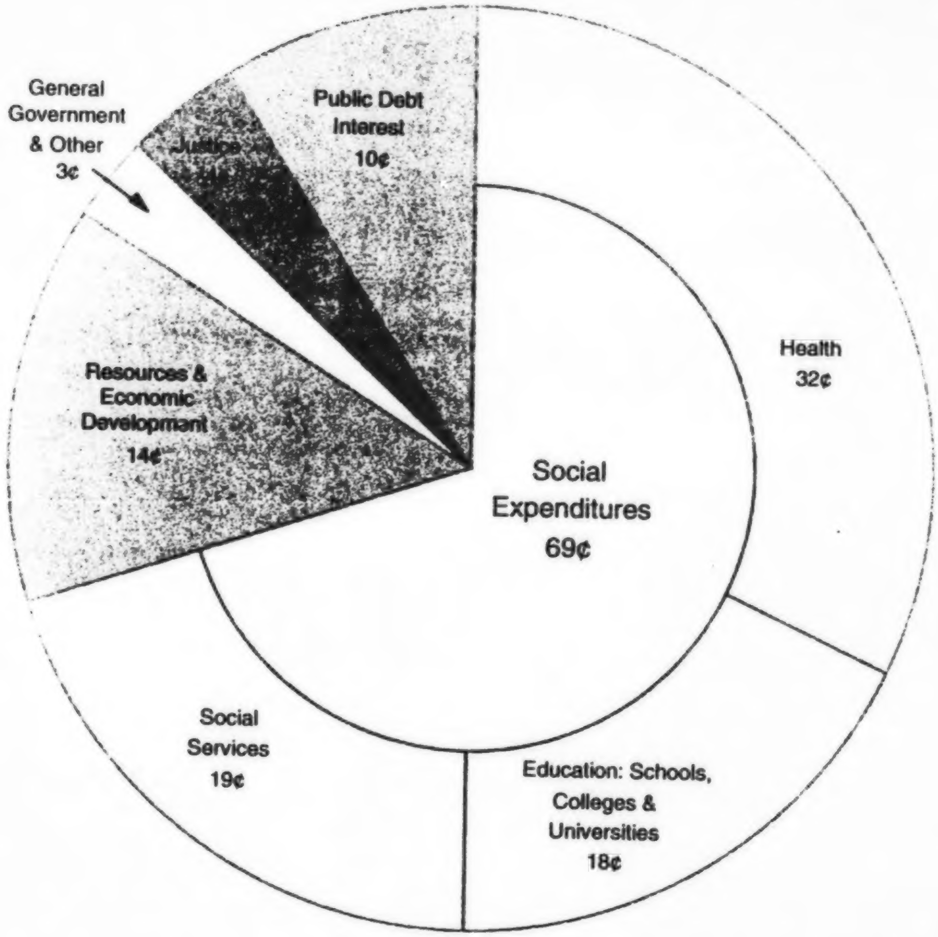


* Excludes advance payments.

The Budget Dollar: Revenue, 1991-92



The Budget Dollar: Total Expenditure, 1991-92*



* Excludes advance payments.

BUDGET PAPER D

The Ontario Capital Fund

Introduction

Public sector investment in infrastructure makes an important contribution to economic and community development in Ontario. The money that government spends on roads, schools, hospitals and other public facilities has a positive impact on the current and future growth of this province.

In 1991-92, the Province will spend about $4.3 billion on building and improving public facilities. This is a significant investment at a time of recession, but it also has economic and social value beyond this fiscal year. The facilities themselves represent an ongoing public benefit.

Public investment in "human" capital, such as spending on education and training that increases the skills and adaptability of the workforce, also makes a contribution to long-term economic and social development.

In previous Provincial Budgets, capital expenditures were reported as a cost of government operations in the year in which they were made. This method of reporting does not recognize the benefit of these expenditures over time.

The concept of a separate capital budget has been put forward by many economic and financial commentators as a way of acknowledging the significance of capital spending and encouraging better planning for these activities.

The Government has decided to create a Capital Fund. This paper describes the reasons behind the new approach. It also provides a definition of capital and a discussion of current and future issues surrounding the reporting of capital. It concludes with some details on how the new method of financial reporting will work.

The Role of Ontario's Capital Investments

Physical Capital: Benefits

Governments invest in many tangible assets which are central to the way our society functions. In addition to the facilities mentioned above, the list includes bridges, subways, social housing, courthouses and jails, museums, libraries and recreational attractions.

Many of these facilities are essential to healthy economic growth. Capital spending on schools provides the physical support to Ontario's education system. In the same way, courthouses support our system of justice and hospitals support the health care system.

Public capital also enhances economic activity and productivity by increasing the return on private capital. For example, investment in transportation networks allows for efficient and cost-effective distribution of goods and services. The servicing of land through public dollars lays the groundwork for more affordable housing and industrial growth.

Public capital spending also provides a direct stimulus to private firms. For example, employment in construction and engineering firms is boosted by contracts to build and maintain roads.

Physical Capital: Trends

Government of Ontario capital spending as a proportion of private investment in the province has declined significantly over the last three decades.

In the early 1960s, capital expenditures were equal to nearly ten per cent of total private investment. This proportion has gradually declined, particularly through the mid-to-late 1980s. Provincial spending on capital accounted for less than four per cent of total private investment by 1989.

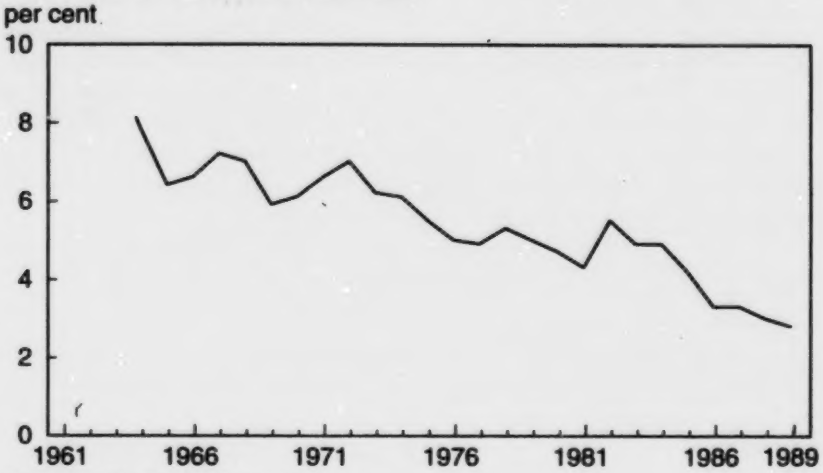
The higher proportion of capital spending in the 1960s reflected an ambitious expansion program, particularly in education and transportation. The baby boom had an overwhelming impact on the need for new schools. The space age generated interest in new technologies and led to the creation of colleges of applied arts and technology. The development of new communities and the growth of existing ones created a need for serviced land as well as more roads and highways.

The decline in capital investment over the following two decades -- not in dollars but in relative proportion -- is indicative of a shift in emphasis in Government spending away from physical services towards more "people" services. Much of the required infrastructure was in place and it was felt that Ontario could afford to concentrate on other services.

However, in the 1990s, it has become clear that parts of our aging infrastructure require significant infusions of new investment to ensure that the people of Ontario will be well served in the future.

It is also becoming increasingly apparent that we are in a new economic and social environment -- one that requires new forms of infrastructure and new ways of dealing with growth. For example, concern about the natural environment also demands that we take a fresh look at how to use infrastructure support to encourage certain activities, such as conserving energy and reducing pollution.

Ontario Government Capital Investment, 1961-1989 (Per cent of Private Investment)



Source: Statistics Canada.

Human Capital

It has been customary to consider capital strictly in terms of physical assets. However, expenditures on human capital should also be planned and managed as investments with long-term economic and social benefits.

The Government makes a significant, ongoing investment in developing Ontario's human capital. A strong, dynamic human resource base is a pre-condition to achieving and sustaining economic growth.

It is people who make the economy run. It was widely predicted some years ago that people would be replaced by machines in the anticipated age of technology. Machines have indeed supplanted people in some job categories in this new technological era. However, it is almost universally acknowledged that the key to growth and prosperity is an educated, adaptable, motivated and skilled workforce.

One of the key economic challenges facing Ontario in the new global economy is ensuring that working people receive the education and training they need. At a time of fundamental economic restructuring, training becomes a major policy tool to help workers and businesses adjust to new forms of competition.

Investments in human capital also have important long-term implications for worker incomes and social and economic equity. Reports by the Premier's Council on Technology and the Organization for Economic Co-operation and Development (OECD) have made the connection between increased productivity and greater equity in the workforce.[1]

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[1] For further reference, see Premier's Council on Technology, *People and Skills in the New Global Economy*, Toronto: 1990, and Organization for Economic Co-operation and Development, *Labour Market Policies for the 1990s*, Paris: 1990.

There is little dispute that investment in human capital plays a crucial role in economic growth. What is more difficult to establish is how we can measure this contribution. Currently, there is no commonly accepted method for measuring investment in human capital.[2]

Measuring human capital is difficult because it is hard to distinguish between investments which maintain the productive knowledge base of society and those which enhance it. Complexities of this kind must be resolved prior to the implementation of new measurements and reporting. Consequently, it would be premature to include valuations of human capital in the Capital Fund at this time.

Financing Ontario's Capital Investments

Given the long-run nature of the benefits of public infrastructure investment, and its important social and private returns, it is appropriate to consider financing capital spending from borrowing rather than current-year tax revenue.

A crucial part of ensuring adequate levels of investment is to have appropriate financial tools which show the relationship between borrowing and capital spending. However, since operating and capital expenditures are reported together in the current budget method, the important link between capital and borrowing is not clearly shown.

Practices in the Private Sector and Other Jurisdictions

In the private sector, investments in physical assets are capitalized at the time of purchase and included on the balance sheet of the corporation. These assets are then charged to operations as a depreciation charge related to future economic benefits to be derived by the corporation.

Most governments in North America account for capital and operating expenditures separately. Since 1968, Ontario has charged capital costs to expenditures in the year in which they occurred. Thus, no recognition of the future benefits to be realized has been made in the financial statements. Instead, accounting has assumed, for reporting purposes, that these assets are immediately and fully consumed.

Different reporting practices by the private sector and government have arisen for several reasons, including the following:

- benefits provided by government capital investment do not flow directly to government, but to the community at large;
- public capital provides output in the form of services which are often provided free or at less than their actual cost to users; and
- the bulk of government investment in capital is through transfer payments, not equity ownership.

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[2] For further discussion, see D.A.L. Auld, *Budget Reform: Should there be a Capital Budget for the Public Sector?*, C.D. Howe Institute, Toronto: 1985.

Because of these differences, government must continue to account for and report its capital expenditures differently from the methods used by the private sector. However, a modified private sector model is possible – one in which there is a separate accounting of capital investment.

Planning and Financing Capital Investment

Capital spending can serve as a counter-cyclical policy tool to balance cycles in private sector investment. During recessionary periods, when private investment weakens dramatically, public investment financed from borrowing can be strategically undertaken to boost overall investment spending.

The $4.3 billion in capital spending in the 1991 Budget is intended to provide a much-needed renewal of Ontario's capital infrastructure and to counter-balance some of the impact of the current economic downturn.

As the economy begins to recover, infrastructure must be in place which can accommodate the increase in economic activity. If the infrastructure has been allowed to deteriorate in recessionary times, there could be constraints on the vigour and scope of the recovery.

The Ontario Government has increased its capital spending during past recessions. Capital expenditures increased from $1.4 billion in 1981 to $2.1 billion in 1983, an increase of approximately 48 per cent. As a proportion of total spending, capital increased from 8.5 to 9.4 per cent over this period.

As noted above, Ontario capital expenditures are now shown as a cost of government operations in the year in which they are made. When revenues are under pressure, it is often easier to defer capital spending than it is to curb the provision of services and payments to people. But deferral of capital spending may jeopardize the development of public infrastructure critical to sustaining Ontario's prosperity in the future.

A New Direction

A new approach to planning capital investment should report the overall financial position of the Province – including the consolidated deficit or surplus for operating and capital expenditures. It should also reflect the need to sustain capital investment and to share the financial burden among those who benefit, in the present and in the future.

To provide a clear distinction between operating and capital expenditures and to permit future improvements in the strategic planning of capital spending, Ontario has established separate Capital and Operating Funds beginning in the 1991-92 fiscal year.

Amendments to the *Financial Administration Act* will be introduced during the year to establish these funds under the umbrella of the Consolidated Revenue Fund.

Definition of Capital

The capital activities to be included in the Capital Fund have been established for the 1991-92 fiscal year. However, this definition may evolve with experience and further study.

Capital investment activities covered in the Capital Fund for 1991-92 include those expenditures related to significant public infrastructure spending for enduring assets. Capital spending will be for the acquisition or construction of infrastructure, either directly through Provincial expenditures on general Government activities or indirectly through transfer payments.

Infrastructure will encompass tangible assets of the following classes:

- land and buildings; and
- major engineered structures and public facilities which contribute to economic growth and activity.

The definition does not include investment in equipment except for that used in the original construction of infrastructure. This is because of the relatively short economic life of equipment.

Significant additions and improvements to existing structures are considered to fall within the definition, but in keeping with recognized accounting practices, repairs and maintenance will be charged to the Operating Fund.

The New Capital Fund

Creation of separate Capital and Operating Funds will require the establishment of discrete budgetary and estimates processes for capital and operating expenditures. There will be a separate budget for each, supported by a single Estimates Book in which these expenditures will be segregated by ministry, program and activity.

The Public Accounts for the 1991-92 fiscal year will show the consolidated financial position of the Province and statements for both the Capital and Operating Funds.

The Capital Fund will invest in Ontario's infrastructure through payments for capital projects approved during the estimates process.

Money will flow into the Capital Fund from the Operating Fund through:

- loans from the Operating Fund required to finance capital projects;
- payments from ministries representing contributions to borrowing for capital projects (these payments will initially be based on the straight-line funding method for capital expenditures over a 20-year period); and
- debt interest payments from the Operating Fund to cover debt service costs.

Conclusion: Benefits and Challenges

The reporting of the combined Capital and Operating Funds in the Public Accounts of Ontario will allow users of financial information to see clearly the effect of the combined operations on the debt for provincial purposes and on the total deficit of the Province for the fiscal year. Table 1 illustrates the impact of these figures.

Impact of Capital Fund on Debt and Deficit **Table 1**
($ Millions)

	1991-92		
	Operating Fund	Capital Fund	Consolidated
Expenditures	48,471	4,290	52,761
Deficit	5,436	4,290	9,726
Debt for Provincial Purposes	47,407	4,290	51,697

The surplus or deficit positions of both the Capital and Operating Funds will be clearly shown. The creation of the separate funds is intended to improve reporting practices, and will not camouflage the true financial position of the Province.

The Operating Fund will be required to provide annually the funds for debt interest and scheduled principal repayment. This requirement will ensure that capital expenditures are funded by the Operating Fund over a period more closely aligned to the benefits they provide. In addition, the way in which capital assets are financed will be reported clearly.

By providing an operating surplus/deficit position, the Government will be better able to manage operating expenditures and fiscal policy as well as determine which operating surpluses or deficits to run over a period of time. In addition, the new reporting method will show the impact of economic recession and growth on Provincial finances and will highlight the importance of capital spending to economic performance. It will support the counter-cyclical role of public investment in times of economic downturn when private investment is weak.

The Capital Fund will also show when capital investment is keeping pace with or falling behind the need for infrastructure renewal.

Generally, investments in capital projects span more than one reporting period. In addition, once capital assets are built, they incur an ongoing stream of operating costs associated with maintaining and servicing them. The timing of repairs and maintenance of capital projects is also important in managing these assets efficiently. There is usually an optimal time to make repairs, after which extensive deterioration may lead to more expensive repairs or outright replacement.

Furthermore, the coordination of expenditures is important because many of these projects are financed in conjunction with other governments.

This paper has outlined the important benefits of having a separate Capital Fund. However, the Fund alone cannot improve capital budget decision-making. A longer term strategic perspective is also required for

Provincial capital planning if these issues are to be addressed. The introduction of a Treasury Board, with a mandate to implement multi-year budgeting, is part of the Government's longer term strategy to manage all of its finances more effectively and strategically.

BUDGET PAPER E

Ontario in the 1990s

Promoting Equitable Structural Change

Introduction

The Ontario economy is currently experiencing its worst recession since the Second World War. At the same time, the economy is undergoing profound and far-reaching structural change. A dramatic illustration of this is the fact that 65 per cent of major layoffs in 1990 were the result of permanent plant closures, in contrast to the 1982 recession when 24 per cent of layoffs were permanent. The economy's capacity to adapt to these changes is impeded by a rate of productivity growth that has been below that of many other industrialized nations. Although a recovery from the recession is expected to occur later in 1991, the effects of structural change will continue to be felt for the rest of this decade.

The forces of structural change affecting Ontario's economy are many and varied. At the heart of these forces is a wave of technological innovation that is reordering the basis of production across a range of industries and increasing the value of knowledge as an input. The shift to knowledge-based production is accompanied by a general decline in the terms of trade for resource products, which have been a traditional strength of the Ontario economy, and an improvement in the terms of trade for the products of the manufacturing and service sectors.[1]

Closely related to this change is a shift in jobs from the manufacturing sector of the economy to the service sector. This shift is the result of improved productivity in manufacturing – a new design technology, for example, may eliminate part of a production process – and the increased demand for service products for business and personal consumption.

The impact of change is further intensified by the growing integration of the world economy. The progressive dismantling of tariff barriers under the General Agreement on Tariffs and Trade (GATT) has raised the level of global trade significantly over the past four decades. The current revolution in communications and transportation technologies makes possible the location of production centres around the world and the further integration of national markets. Recent bilateral trade arrangements, such as the Canada-U.S. Free Trade Agreement, are accelerating these trends.

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[1] Terms of trade reflect the relative foreign exchange earning capacity of exports of a particular commodity or sector.

The central goal of the Ontario Government's economic strategy is sustainable prosperity. This strategy is premised on the need not just to adapt to the pressures of changing economic conditions, but to support positive economic change for Ontario.

A prosperous society must provide high levels of employment in well-paying, high-quality jobs. Prosperity must be environmentally as well as economically sustainable. It must also be socially sustainable, which requires that the costs and benefits of economic change be shared fairly. Individual workers must be assured that they will not be left to carry the burden of adjustment alone. Workers must receive an adequate return for their labour, just as investors require an acceptable return on their investment. A healthy and equitable society requires a public sector that provides the services necessary to promote the health, education and social well-being of its citizens.

Ontario must promote equitable structural change through a comprehensive economic and social strategy aimed at sustainable prosperity.

This province has a number of underlying economic advantages that will help us meet the challenges of the 1990s. They include a diversified economic structure, experienced and qualified managers and workers, a favourable location in the North American market, and a well-maintained physical and social infrastructure. However, these advantages alone will not be sufficient to meet the challenges of structural economic change.

To discuss Ontario's competitiveness, it is important to distinguish between the factors that contributed to success in the past and those that will determine success in the evolving economy of the 1990s. This is important not only for business which must be competitive to survive, but also as a guide for effective public policy.

While the goal of sustainable prosperity may be shared by many Ontarians, there are a variety of means prescribed for achieving it. This paper examines the various factors that will affect our ability to achieve this goal and proposes that sustainable prosperity is best achieved on the basis of increased equity and social cooperation.

Structural Change and Competitiveness

Many commentators have concentrated on the concept of competitiveness to describe the broad range of factors that will determine our ability to sustain the desired level of prosperity in the coming decade. There is concern being expressed in many quarters about the ability of the Canadian and Ontario economies to compete. In this context, it is important to clarify and define competitiveness in the emerging economic order.

Long-term competitiveness is based on the capacity to produce as efficiently, or more efficiently, than one's competitors and to adapt to structural change in a dynamic fashion. The key to long-term competitiveness involves a number of factors, including the ability to improve productivity performance, the skills and adaptability of the labour force, the quality of management skills, the capacity for technological innovation, organizational flexibility and a strong foundation of physical and social infrastructure.

A number of different factors can influence short-term competitiveness, which refers to the level of selling prices and costs currently prevailing in the economy, relative to those of our major trading partners. The most important of these are the exchange rate, interest rates and overall price and cost levels in the economy. These are essentially matters of federal economic and fiscal policy. Current federal monetary policy, by pursuing high interest rates and an unrealistically high value of the Canadian dollar, is impeding the investment that is needed for longer term competitiveness and the ability of Canadian firms to sell their products abroad.

There is a clear distinction between federal policies on competitiveness and the alternative approach supported by the Ontario Government.

The federal approach to competitiveness has included privatization, deregulation, tax reform including the Goods and Services Tax, the Free Trade Agreement with its accompanying limits on the nation's ability to implement economic strategies, and erosion of the social safety net.

Federal policies are leading neither to higher incomes nor to an enhanced capacity to adapt. At a time when organizational flexibility is essential, rising unemployment and declining federal support for social security programs and skills training and development are causing both employers and employees to adopt a defensive attitude to change.

Ontario cannot afford the rigidity induced by policies which focus on cutting wages and eroding public sector contributions to productivity. The alternative approach for government is to play a role as facilitator of structural change, not only to minimize the costs of transition and distribute them more fairly, but actively to promote the development of high-value-added, high-wage jobs through strategic partnerships. The approach of the Ontario Government is based on the conviction that sustainable prosperity is best achieved on the basis of increased equity and cooperation.

The importance of taking this alternative approach to competitiveness stems in part from changes to the way our economy works. In the past, with relatively entrenched methods of mass production and unvarying marketplaces, competitiveness was largely the outcome of reducing production costs, particularly labour costs. In contrast, competition in the 1990s is based on gaining strategic advantage in a rapidly changing marketplace by introducing innovative processes and products that are continually being adapted and customized.[2]

Policies predicated on the economic rules which characterized competitiveness in the past tend to identify wage levels and increases as the central impediments to economic adjustment. However, it is important to recognize that a narrow focus on unit labour costs fails to take into account the fact that Ontario workers have seen their weekly earnings decline by 1.1 per cent in real terms from 1979 to 1989. In the emerging global economy of the 1990s, the important long-term competitiveness challenge is to address the gap in productivity growth between Ontario and our major trading partners.[3]

A preoccupation with cost cutting misses the more complex and future-oriented challenge of improving both productivity and strategic marketplace advantage in today's changing economic circumstances. Competitive success now depends not only upon each firm taking the initiative in the workplace and marketplace, but equally on the surrounding networks of social and economic partnership. By shifting the focus of the competitiveness challenge, the nature of the solutions also changes.

As the Organization for Economic Co-operation and Development (OECD) already pointed out in 1988, there is a vital interdependence between technological, economic and social change. Partnership approaches towards economic change recognize more effectively that the role of technology as a factor in stimulating economic growth is profoundly influenced and fashioned by the society in which it occurs.[4] On this basis, an effective response to the competitive challenge may ultimately depend upon the relationships which exist between, within and around firms.

Policies which aim to facilitate structural adjustment must take into account the increased importance of knowledge-based inputs in every aspect of the production process. The impact of knowledge and emerging technologies underlies many of the other factors influencing long-term competitiveness in an evolving economy.

Ontario's success in addressing the challenges of the 1990s will depend on the ability of business, labour and government, working together, to increase the flexibility of our economy, its supporting institutions and society in general.

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[2] Michael H. Best discusses the nature of product and process improvement, and the kinds of firms within which such improvements occur in *The New Competition: Institutions of Industrial Restructuring*, 1990.

[3] The section, "Productivity and Wages", elaborates on these issues.

[4] Organization for Economic Co-operation and Development, *New Technologies in the 1990s: A Socio-economic Strategy*, 1988.

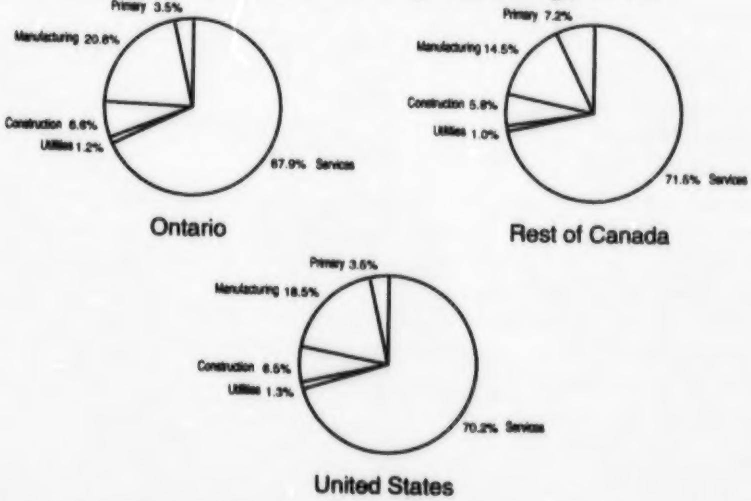
The sections that follow describe Ontario's economic foundation and discuss the issues of technology and innovation, social infrastructure, productivity and wages and labour force training. The paper concludes with some comments on future directions in Ontario public policy related to the Province's ability to address the economic challenges of the 1990s.

Ontario's Economic Foundation

Ontario is in a position to benefit from its diversified economic base, advantageous geographical location, sophisticated management, labour and technology and rich natural resources. The diversified structure of Ontario's economy, illustrated below, provides a sound basis for positive adjustment to structural change in the 1990s. Ontario has a mature industrial infrastructure, with a strong manufacturing sector, and is less reliant on agriculture and resource industries than the rest of Canada. In this sense, Ontario's economic structure is comparable to that of the United States.

Ontario's economic structure permits the development of broadly based and portable labour force skills and experience. It also provides considerable potential for the transfer of technology and knowledge between firms and sectors. Ontario has 16 per cent of its working-age population employed in manufacturing, second only to Germany among the group of seven industrial nations (G-7). Ontario manufacturing jobs have tended to be concentrated in highly skilled, highly paid industries such as auto and electrical products.

Employment Distribution by Industry, 1989



Ontario

Rest of Canada

United States

Sources: Statistics Canada, USA Facts and U.S. Bureau of Labor Statistics.

In the 1980s, Ontario's diversified economic structure and inherent strengths resulted in strong economic performance. Output in the 1980-89 period grew at an average annual rate of 3.6 per cent – faster than that of any major industrialized country, with the exception of Japan (Table 1). Currently, Ontario has higher output per capita than any of the

G-7 industrial nations. This reflects high management and labour skill levels and a relatively high level of technological advancement.

Output Of Select Industrialized Countries **Table 1**

	Output Growth 1980-1989 %	Output Per Capita 1989* U.S.$
United States	2.7	20,981
Japan	4.2	22,901
Germany	2.0	19,520
France	2.0	16,880
Italy	2.5	14,933
United Kingdom	2.2	14,585
Canada	3.1	20,980
Ontario	**3.6**	**23,930**

* As measured by Gross Domestic Product (GDP) per capita.

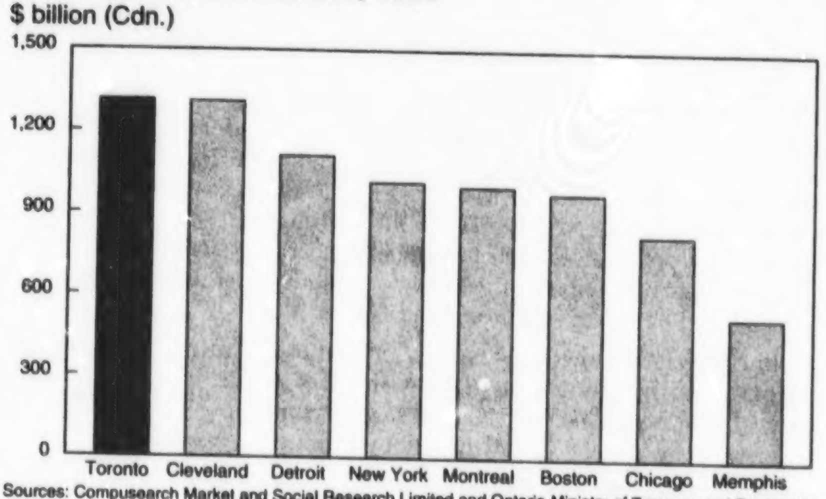
Sources: OECD, Statistics Canada, US Department of Commerce, WEFA, USA Facts.

The province enjoys positive trade balances in several key product groups including passenger automobiles, trucks, office equipment, newsprint and aircraft parts. Ontario has more than 50 per cent of Canada's manufacturing output, making it one of the most diversified industrial bases in North America.

The Ontario service sector is also strong. This largely reflects the strength of the manufacturing base, Ontario's attractive location for Canadian head offices, the significant presence of the Canadian financial industry and a skilled labour force. With 36.5 per cent of Canada's population, Ontario generates over 44 per cent of the nation's employment in business services, finance, insurance and real estate. The service sector is expected to continue to increase its share of national output.

Ontario benefits from its close proximity to North America's largest and richest consumer market. In fact, the consumer market within a 400-mile radius (one day's trucking distance) of Toronto is larger than for any other major city in North America (see chart below). In addition to the consumer market, a substantial industrial market is also concentrated in this same 400-mile radius. Markets for machinery and equipment, just-in-time automotive parts and telecommunications equipment are particularly strong.

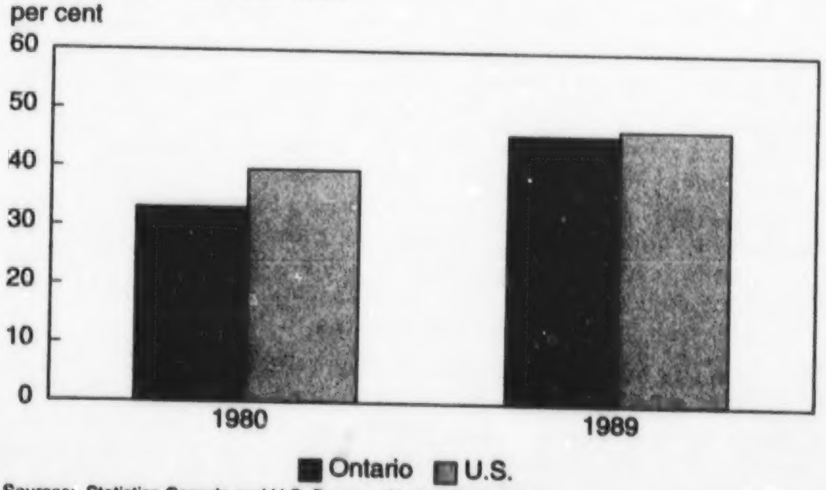
Total Household Income Within 400 Miles of Selected Urban Centres, 1988



Sources: Compusearch Market and Social Research Limited and Ontario Ministry of Treasury and Economics.

The skill levels of the Ontario labour force compare favourably with those of other jurisdictions. For example, the share of the adult labour force aged 25-64 with some post-secondary education rose from one-third in 1980 to 46 per cent in 1989 (see chart below). This increase essentially eliminated the long-standing gap between the educational levels of the labour forces of Ontario and the United States.

Labour Force Aged 25-64 with Post-Secondary Education, 1980 and 1989



Sources: Statistics Canada and U.S. Bureau of Labor Statistics.

Finally, Ontario's economic structure includes a rich natural resource base including forests, minerals, water and farmland which, managed in an environmentally responsible manner, will continue to contribute to Ontario's development and diversity.

Innovation and Technology

Technological change is a key driving force in modern industrial economies. It is not a single event that takes place in an isolated segment of a firm or sector. It is a social process that is integrally tied to every phase of economic activity. Technological change through innovation presents opportunities and challenges for Ontario's enterprises, managers and workers that will require an investment in new technology, managerial practices and labour skills.

Public policy that encourages an organizational culture supportive of technology and innovation in the workplace and in society at large will have a positive impact on the province's economic performance. Government can play a critical role by promoting greater coordination, facilitating changes to labour practices, encouraging labour and management cooperation in technology and innovation, and contributing to worker and management training and education.

The sources of technological knowledge and insight are cumulative and dynamic. Insights gained in the design and manufacture of one product may result in significant new insights and comparative advantages for the production of others. From this perspective, technical expertise constitutes a stock of knowledge that accumulates through a process of learning-by-doing at all levels of society and more particularly by managers, engineers and workers within firms.

As a result of the quickening pace of technological change, competitiveness will now depend upon the coordination of activities along all phases of the production chain. In an effort to lead in markets, firms will become increasingly aware of the need to take advantage of the network of associated firms around them, as well as of suppliers and consumers as a collective resource in problem solving.

The innovation process entails a complex set of relationships between networks of firms and external sources of knowledge, such as universities or government laboratories. The institutional infrastructure of a sector can constitute an important source of competitive advantage. This infrastructure may include a variety of practices involving firms or outside agencies, such as trade associations, apprenticeship programs, labour education facilities, joint marketing arrangements and regulatory commissions, each of which facilitates inter-firm cooperation. These sector-based institutions can play a critical role in improving the collective competitiveness of firms relative to those elsewhere.

Performance in research and development (R&D) is often cited as an indicator of investment in technology and innovation. While federal and Provincial incentives which support R&D in Ontario are more generous than those of major OECD countries, R&D performance (Table 2), as a share of total economic activity, is only 60 per cent of that in the three leading industrial countries.

Total R&D Expenditures as a Percentage of GDP, 1989 **Table 2**

	1989
United States	2.8
Japan	2.9[a]
Germany	2.9
France	2.3
Italy	1.3
United Kingdom	2.3[b]
Canada	1.3
Ontario	**1.7[a]**

a 1988 data.
b 1987 data.
Source: Organization for Economic Co-operation & Development.

The gap in Ontario's R&D performance relative to OECD countries reflects the low level of *industrial* R&D in Ontario, especially relative to that in the industrialized U.S. states. In fact, in Canada over 97 per cent of all businesses in manufacturing and technology-dependent service sub-sectors perform no R&D. Among the reasons for the low level of industrial R&D are the tendency of foreign-owned multinationals to do much of their research at their head offices and the under-investment in R&D by natural resource companies.

However, in addition to performing their own research and development, firms can benefit from the R&D of foreign affiliates, government and universities to enhance their technological bases. A variety of policy mechanisms for promoting the transfer of technology from these other sources to Canadian firms will help to improve the overall level of innovation. In a number of cases, industry-based research associations have played a critical role in facilitating this process by performing the roles of gatekeeper and broker of technology for their members. Furthermore, these industry associations are effective in maintaining close working relationships with government laboratories, universities and research organizations.

Focusing primarily on industrial R&D risks ignoring the numerous other aspects of technological innovation. R&D activities must be integrated into the strategic management of firms, leading to an organizational dynamic that encourages innovation and focuses on the commercialization of new technologies.[5]

Technological innovation is also driven by challenges such as the need for improved environmental protection. Worldwide, there is growing recognition that sustainable prosperity – and our very survival – depend on a healthy environment. An economic advantage will accrue to those who quickly recognize the universality of environmental concerns and who adapt to the new reality. Japan's adaptation to the first oil shock has made that country energy efficient. Germany's response to industrial pollution has put it in the forefront of the pollution abatement industry.

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[5] Keith Pavitt, "What We Know About the Strategic Management of Technology", *California Management Review*, Spring 1990.

Many companies are already moving on environmental issues. For some businesses, this will necessitate short-term economic adjustments. Over the medium term, however, stricter standards can act as a spur to technological innovation, producing productivity gains from the systematic elimination of waste of production inputs.

The more rapid Ontario's progress in meeting the environmental agenda, the more likely we are to gain a comparative advantage in marketing the products and services of environmental industries to other jurisdictions having to meet higher standards.

Promoting Social Progress

In this period of rapid technological and social change, greater cooperation in the workplace, accompanied by greater security of employment and income, will be vital for both workers and employers.[6] Ontario workers will be more willing and able to contribute to successful economic change if they have confidence in Ontario as a fair society.

The massive changes anticipated in what we produce and how we produce it will force employers and employees to venture into new territory. From entrepreneurs and CEOs to workers and students, confidence in a secure future is an essential part of welcoming rather than resisting change. Programs that reduce earned income differentials, promote equity and maintain quality of life increase the flexibility of the labour force and society as a whole in ways which facilitate positive economic change.

One of the ways of introducing greater fairness and improving workplace relations and productivity is to develop a stronger commitment to employment and income security. Such arrangements encourage greater commitment from employers to invest in both the enterprise and its workers and an increased willingness among workers to accept new work arrangements and retraining. Government can set the stage for this by introducing measures such as pay equity, employment equity and a fairer minimum wage.

Other critical contributors to a dynamic and productive economy are public services and infrastructure. One of the most direct contributions to income security, fairness and cost competitiveness is our universal and publicly funded health care system. Because our system is not tied to either employment or a specific employer's benefit package, as is the case in the U.S., Ontario citizens have complete security in health care coverage. This translates into a greater ability and willingness of people to accept change and to move between firms and industries than would be the case if the availability of basic health care coverage were firm-specific and tied to employment status.

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[6] Paul Osterman and Thomas A. Kochan, "Employment Security and Employment Policy: An Assessment of the Issues", *New Developments in the Labour Market: Toward a New Institutional Paradigm*, eds. Katharine G. Abraham and Robert B. McKersie, 1990, pp.155-184.

Furthermore, our health care system is more cost-effective than the private system in the U.S. The provision of universal and publicly funded health care services consumes 8.6 per cent of Gross Domestic Product (GDP) as opposed to 11.2 per cent of GDP in the U.S. This is also reflected in the fact that, for an American employer, medical coverage per employee in 1990 is estimated to have a direct cost averaging $3,000 Cdn., while an employer in Ontario would pay an average of $640 per employee.

Public investment in physical infrastructure also contributes to a high quality of life and productivity growth. For instance, investments in water supply and waste treatment facilities can reduce input and maintenance costs by improving the quality of the environment. Similarly, publicly funded transportation networks increase efficiency in the movement of goods, thus decreasing congestion and business costs. In addition to quality-of-life considerations, U.S. studies suggest that the decline in U.S. investment in infrastructure may have played a significant role in the slowing of productivity growth in the 1980s.[7] Maintaining and enhancing Ontario's infrastructure will reduce barriers to change and facilitate new investment.

Firms and highly skilled workers are increasingly interested in locations which offer residents a high quality of life. Ontario's low crime rate, low infant mortality and long average life expectancy provide a stable and secure personal life-style (Table 3). Local government services and organization compare well with many other cities around the world and Ontario has some of the best cultural and recreational facilities in North America. Ontario public policy has fostered respect for a variety of cultures and support for the retention of the cultural and linguistic heritage of many different groups in society.

Governments also help to shape the general conditions underlying investment and a high quality of life through the regulatory and legal framework established to ensure consumer protection, environmental preservation and planning of rural and urban development. To advance economic growth and at the same time make social progress requires an integrated approach that recognizes the interrelationships between the two. Ontario will not be able to have one without the other.

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[7] David Alan Aschauser, "Is Public Expenditure Productive?" *Journal of Monetary Economics*, March 1989. William F. Fox and Tim R. Smith, "Public Infrastructure Policy and Economic Development", *Economic Review*, March/April 1990.

Selected Quality-of-Life Indicators, Ontario and Other Jurisdictions — **Table 3**

Jurisdiction	Homicides*	Infant Mortality**	Life Expectancy
Ontario	2.0	7.2	75.5
Quebec	2.4	7.1	75.0
New York	12.5	10.7	73.7
Michigan	10.8	10.7	73.7
Ohio	5.4	9.3	73.5
Illinois	8.6	11.6	73.4

* per 100,000 population 1988.

** per 1,000 live births 1987.

Sources: Statistics Canada, Statistical Abstract of the United States, Canadian World Almanac.

Productivity and Wages

Productivity growth is essential for long-term competitiveness because it enhances industry's ability to expand production and maintain or increase international exports and market share. It is this capacity to produce more with the same levels of inputs - energy, raw material, labour and capital - that provides the basis for high-value-added jobs and stable income growth for workers and employers.

Discussions of competitiveness tend to focus on reducing input costs or the amount of labour and other inputs used in production. While this is a characteristic response during a recession, it fails to address the longer term challenge upon which future competitiveness and sustainable prosperity depend. If recession-induced cost reductions involve laying off skilled workers or postponing needed investments in workplace skills and new technology, these short-run moves will be counter-productive over the longer term.

Recently, some commentators have cited high unit labour costs and wages as reducing the short-term cost competitiveness of Canada, as well as impairing successful structural adjustment.[8] However, it should be noted that while unit labour costs for manufacturing have grown more quickly in Ontario than in any of the major industrial countries (except Canada), real manufacturing wages in Ontario have not increased over the last decade, and total wages have fallen as a share of GDP, even though the proportion of the population working increased by 10 per cent. Over two-thirds of the Ontario-U.S. unit labour cost differential was caused by lagging Ontario productivity growth and another fifth by the fact that real U.S. manufacturing wages fell even faster than those in Ontario. In contrast, the other G-7 countries achieved both productivity and real wage gains.

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[8] Relative unit labour costs compare the labour costs per unit output, expressed in a common currency for different jurisdictions.

Ontario's productivity as measured by output per capita is higher than for any of the G-7 countries. But, as shown in Table 4, Ontario has not experienced as much growth in labour productivity over the past decade as the leading industrial countries.[9] Of particular concern is Ontario's performance relative to the U.S., its major trading partner.

Labour Productivity Growth, Real Hourly Wages and Unit Labour Costs in Manufacturing 1979-89 **Table 4**

	Productivity Growth*	Real Hourly Wages**	Unit Labour Cost***
	Average annual growth		
	%	%	%
Japan	5.5	1.4	3.7
United Kingdom	4.7	2.8	1.9
Italy	4.0	0.8	2.9
France	3.4	1.0	1.7
United States	3.6	-0.8	1.9
Germany	1.8	1.4	2.8
Canada	1.5	0.2	5.5
Ontario	**1.3**	**-0.1**	**5.2**

* As measured by output in constant U.S. dollars divided by person-hours.
** 1979-88 except for Canada and Ontario.
*** Unit labour cost equals the value of output divided by labour costs, both in constant dollars.
Sources: U.S. Bureau of Labor Statistics, OECD, Statistics Canada.

Investment in machinery and equipment is an important element in increasing productivity of the labour force. The level of investment per worker by Ontario manufacturers is very low when compared with that of competitors. Between 1979 and 1988, Ontario manufacturing investment in machinery and equipment per worker was 29 per cent below that of the U.S. This reflects lower U.S. interest rates, a cutback in the U.S. manufacturing labour force in basic industries and increasing U.S. investment related to defence production. Strong growth in investment will be necessary if Ontario is to keep pace with technological changes and realize the associated productivity gains.

Also important is the fact that, during the past few years, capital investment in manufacturing has shifted away from construction and towards machinery and equipment, and more specifically towards high-technology equipment such as numerically controlled machine tools, computer-assisted design and computer-assisted manufacturing systems (see chart below). This intensive, rather than extensive, investment improves industries' capacity to absorb technological change and thus is supportive of productivity growth.

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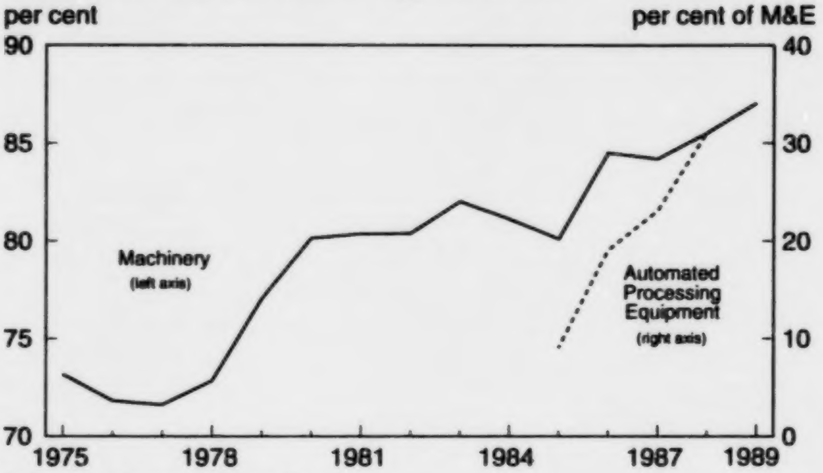
[9] A proxy commonly used for total productivity is labour productivity which is a measure of the amount of output produced per unit of labour.



Machinery and Equipment as a per cent of Capital Expenditures in Manufacturing, 1975-1989

Source: Statistics Canada.

The need for structural changes will challenge Ontario's ability to improve real wages unless productivity is improved faster than experienced in the 1980s. Rather than a selective focus on the wage component of unit labour costs, we need to examine the full range of factors which influence productivity, including workplace organization, labour force education, technological investment and social programs. The focus of public policy must be on fostering a culture that is conducive to innovation and increasing the skills and adaptability of the labour force.

Quality of the Labour Force

Ontario's role in the emerging global economy will depend largely on the flexibility and skills of our labour force to produce higher value-added goods and services. While investors seeking low-wage locations have many options, a well-educated, skilled and experienced labour force can be found in only a few jurisdictions.

In 1990, the World Economic Forum ranked Canada third among 23 major industrialized countries for the quality of its human resources. Among the factors considered, Canada ranked high on youthfulness of population, labour force and employment growth, labour flexibility, employee incentives and educational effort. With 38.6 per cent of Canada's labour force, Ontario contributes substantially to this national standing. In order to improve in areas where we are not as advanced, the Premier's Council on the Economy and Quality of Life will invite industry, labour, and community groups to work with government to enhance the quality of our labour force, economy and environment.

Although Ontario's skilled labour force compares favourably to other jurisdictions, differences between the skills required in a changing labour market and those available are apparent. A February 1991 report by

Employment and Immigration Canada identified 120 occupations where employers noted that labour is in short supply in Ontario. These shortages represent both a challenge and opportunity for industry, labour and government to work together in providing workers with training and upgrading opportunities for increased employment and income security.

According to the Canadian Labour Market and Productivity Centre, positive efforts are being made to improve our skills base. Canada ranks tenth among 22 OECD countries in public sector spending on training for adults. As shown in Table 5, Canadian public expenditure on training, measured as a per cent of GDP, exceeded that of Japan, the United States and Britain.

Public Expenditure on Labour Market Training for Adults as a Percentage of GDP, 1988 — **Table 5**

	%
Italy	0.03
Japan	0.03
United States	0.11
United Kingdom	0.14
Canada	**0.20**
France	0.28*
Germany	0.32

* 1987 data.

Source: OECD Employment Outlook, July 1989.

However, private sector participation in training in Canada is low compared to other jurisdictions. A review of training in industry undertaken by the Premier's Council revealed that U.S. firms invest twice as much on formal training per worker as Canadian firms, and German firms spend up to four times as much.[10]

The Premier's Council, and more recently the Economic Council of Canada, have made recommendations for improving the development and adjustment capacity of the economy. Among the recommendations is a call for a partnership among socio-economic players through which labour, business and other economic agents would share decision-making and responsibility for labour market programs.

In many sectors of the Ontario economy, industry, labour and government have implemented cooperative arrangements that encourage greater employee involvement in the planning and operation of their workplace. Employee participation in activities such as workplace health and safety committees, educational leave programs and the implementation of workplace-based training programs have resulted in improved working conditions, output and industrial relations. Further examples of where partnerships have been established in Ontario include human resource training and development arrangements in the steel, plastics and electronics sectors. In addition, there are over 70 Training Trust Funds in Ontario whereby industry, labour and government contribute matching funds to a training trust which supports training and upgrading opportunities identified by employers and workers.

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[10] Premier's Council Report, *People and Skills in the New Global Economy*, 1990 p. 91-92.

For many individuals, a lack of literacy and numeracy skills compounds the difficulties they experience in obtaining or upgrading jobs or participating more fully in the labour market. With government support, industry and labour have been working closely together in implementing workplace-based literacy and numeracy programs which improve safety, efficiency and output in the workplace and lead to greater employment and income security.

One example is the Ontario Federation of Labour's Basic Education for Skills Training program, operated in conjunction with the Ontario Ministry of Education. Through this program, workers are trained as language teachers to help fellow workers increase their literacy skills. In the area of long-term skills training, industry and labour participation on Provincial Advisory Councils – voluntary bodies which provide direction on apprenticeship standards and curriculum – has helped Ontario raise the number of apprentices training annually from 40,000 in 1987 to 50,000 in 1990, an increase of 25 per cent.

The challenge for industry, labour and government is to build on these partnerships in responding to and coping with demographic, technological and economic changes which face our labour market. We must increase and better coordinate our training efforts.

Conclusion: The Need for a New Approach

Sustainable prosperity in the 1990s can only be achieved if we take into account the growing interdependence of technological, economic and social change. A new economic strategy based on broad social partnerships is needed. It will require strategic public and private initiatives in a climate which allows partners to develop a sense of collective responsibility. It must ensure that all Ontarians share equitably in a prosperity that is both environmentally and socially sustainable.

Successfully meeting this challenge will depend largely upon enhancing productivity growth through new investment, innovation, research and development and enhanced managerial and workforce skills. We must introduce new technologies into all sectors of the economy and reap the productivity gains generated by innovative working relationships.

Ontario needs integrated and innovative economic and social policies which address the following issues:

- new approaches to public education and job-specific skills training to provide people with the knowledge and flexibility to respond to the changing economic environment of the 1990s;
- public policies and private sector practices to provide workers with the security and influence necessary to enable them to accept and initiate change;
- industry and/or sectoral strategies to facilitate firm-specific adaptability;
- greater investment in infrastructure, technology and innovation; and
- exploration of better ways to channel the capital resources of Ontario to finance restructuring and promote regional development.

The changes that are required reinforce each other and must happen together. However, they will not, in most cases, be carried out by government alone. The only way to both refine and realize this new strategy is through partnerships among the key participants — government, labour, business and community groups. A concerted and cooperative approach will be required to achieve our goal of sustainable prosperity.

The Government's intention is to enlist the participation and advice of business, labour and all interested sectors in designing and implementing our strategy for sustainable prosperity.